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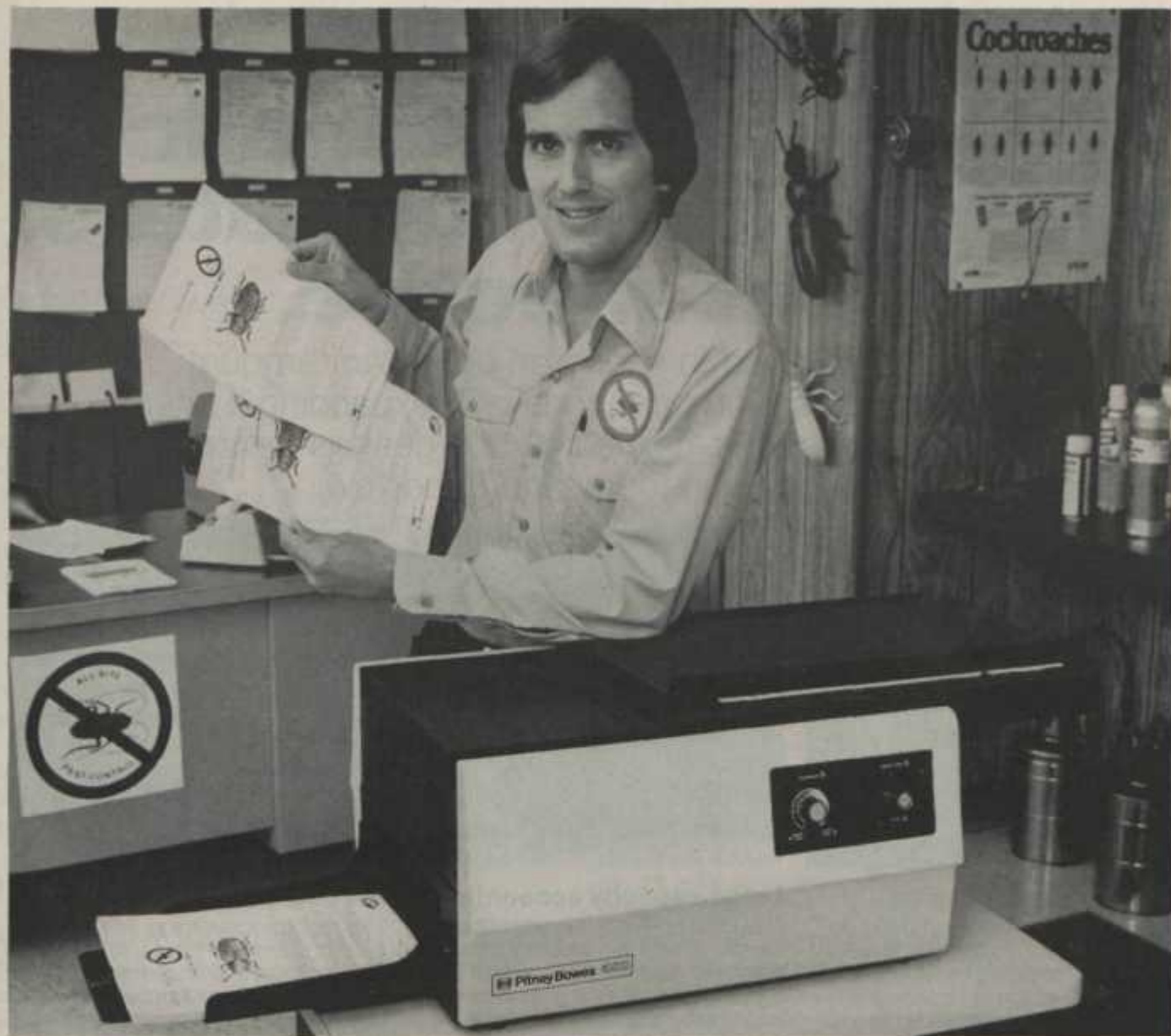
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Cover Photo: John Launois—Black Star

Subject on cover is undergoing test to determine effect of air pollution on eyes.

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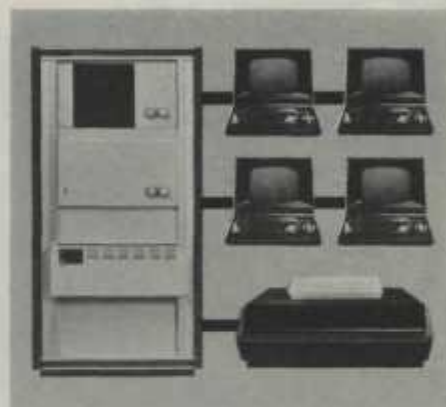
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The Nation's Business WASHINGTON LETTER

► **MAJOR CONFRONTATION** between business and unions is shaping up over OSHA reform bill introduced by Sen. Richard Schweiker (R.-Pa.) and four co-sponsors.

Purpose is to exempt from OSHA safety inspections those businesses having a good safety record for preceding year.

Business representatives see the bill as a moderate reform which would reduce harassment of those companies and allow government enforcers to concentrate on most dangerous workplaces.

Unions, in contrast, are calling it an attempt to gut OSHA. AFL-CIO says defeat of Schweiker bill is its number one legislative priority.

Business strategists believe bill will pass, if it gets out of committee.

► **ECONOMIC POLICY FAVORABLE TO UNIONS** is developing as result of national accord negotiated last summer between Carter administration and AFL-CIO.

Accord was once suspected of being empty public relations gesture. But now administration and union officials are bragging openly about significant input from labor in formulation of 1981 budget.

Details of budget went to labor federation before many in administration had seen them.

Evidence that labor has gained major influence over national economic policy reinforces fears of those who believe that new budget makes bow to restraint, but is really highly inflationary.

► **HOT TOPIC AMONG POLITICAL HANDICAPPERS** is amount of damage FBI's bribery probes will cause in upcoming election.

Defeat of some powerful incumbents, once considered safe for reelection, could change legislative climate for business issues.

Some observers say scandals won't do

much harm because people already have a low opinion of Congress.

Others point out that Watergate hurt many uninvolved politicians in following election.

► **SCANDALS WILL STAY IN HEADLINES** for months--perhaps even beyond election--due to slow pace of judicial process. Congressional acrimony over leaks from Justice Department may cause further deterioration in troubled relations between President and Capitol Hill.

► **YOUR SHARE OF 1981 BUDGET**, if cost of running federal government were allocated equally among all U. S. households, would be \$7,559.

For comparison, average family in 1981 is expected to spend \$4,338 on food, \$3,699 on housing, and \$1,376 on clothing.

► **MORE RED TAPE FOR BUSINESS** is promised by new budget.

Agencies with business regulatory responsibilities--28 of them--are slated for a 12 percent boost in funds for fiscal 1981.

It's one of largest percentage increases in budget.

► **EXPECT FURTHER ATTEMPTS TO STACK** election laws in favor of liberals in this session of Congress.

Liberals, still in control, see themselves gradually losing power.

Bipartisan conservative coalition, usually favorable to business, is showing growing clout on Hill. By one observer's count, coalition won on 70 percent of votes it contested in 1979, compared to 52 percent success rate previous year.

Liberals will try to reverse trend by adopting a more conservative image and

by seeking changes in election laws to improve their chances for reelection.

Strategy:

1. Try for public subsidies for congressional campaigns.
2. Limit contributions a candidate can receive from political action committees.
3. Repeal Hatch Act, so government employee unions can mobilize federal workers as political force.

► IT'S TIME TO UPDATE YOUR CONTINGENCY plan for coping with wage-price controls.

Advent of controls is not imminent, but early warning signals are flying in Washington.

Among the signals:

- Outlook for high rate of inflation in election year.
- Opinion polls showing public support for controls.
- Advocacy of controls by presidential hopeful Sen. Edward M. Kennedy (D.-Mass.).
- Procontrols statements from some prominent liberal economists, including Barry Bosworth, former chairman of President Carter's Council on Wage and Price Stability.

Atmosphere is reminiscent of that prior to imposition of Nixon controls. Experts favoring controls admit they conflict with economic theory, but say they are needed to cool inflationary pressures caused by expectations of more inflation.

► SHOULD YOU WORRY about slump in U. S. productivity?

Yes. It affects you--and your children--in the pocketbook.

At former rates of productivity improvement, American standard of living doubled every generation.

Last year, there was no improvement at all--country actually lost ground.

If present trends continue, by end of decade U. S. economy--now world's most productive--will be in fifth place.

► BUYING NEW HOUSE may get even harder, thanks to latest efforts of federal government to help you.

Energy Department proposes to limit

amount of energy that may be consumed by a new building, commercial or residential.

Requirements would boost construction costs--as much as \$1 per square foot for houses, according to energy bureaucrats. Commercial construction costs would increase three to five percent, or \$1 billion a year.

Proposed standards are performance standards, not materials specifications. Advocates say it's most efficient way to regulate, if regulation is needed.

Also, new standards would produce savings on energy costs.

But construction cost increases would be inflationary. And, critics say, what good is saving money on heating house, if you can't afford to buy it?

► CHANCES THAT IRS WILL AUDIT your tax return increase greatly if you:

- Are self-employed in a cash business.
- Have a tax shelter, family trust, or office at home.
- Belong to a barter group.
- Prepare a complex return yourself.
- Are a wealthy entertainer or artist.
- Make large charitable contributions in kind rather than cash.
- Deduct large travel and entertainment expenses.

So says former IRS insider, Paul N. Strassel, in new book from Random House: All You Need to Know About the IRS.

► CAN YOU CURE INFLATION? Unlikely, you say. Not by yourself.

But there is a simple, practical technique to help fight inflation that more and more businesses are using, with good results, they claim.

Payroll stuffers--series of three--developed by U. S. Chamber have solid impact on employees who want to cut inflation, too.

One stuffer explains causes of inflation. Another tells what individual can do to reduce it.

Third stuffer explains insecurity of social security program, suggests corrective actions employees can take.

Copies available. Write U. S. Chamber, call (202) 659-6184. There's a small charge; quantity discounts.

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Symbols and Substance

EX MALO BONUM, as the saying goes. From bad events perhaps good consequences flow. The seizure on Nov. 4 of our embassy in Tehran surely was a bad event. The Soviets' Dec. 27 invasion of Afghanistan was a worse one. But for the first time since the collapse of the U. S. effort in Vietnam, we are hearing widespread, serious debate about the state of our armed forces.

High time. For the past ten years, or so it seems, discussion of military affairs has been largely confined to a tiny fraction of the electorate—defense contractors, men and women in the armed forces, and members of Congress directly concerned with defense appropriations. During the peak of the debate over a treaty on arms limitation, many of us in the pundit business wrote long analytic pieces on Salt II. These essays provoked no discernible response. We fulminated over neutron bombs, the B-1, the MX. The public eye glazed over. The armed forces dropped out of sight and out of mind.

ALL THAT has changed in recent months. The Iranian outrage set off a galvanic reaction. Even among those who scarcely could locate Afghanistan, the Soviet takeover triggered alarm. A disillusioned President confessed that he had learned more about Soviet perfidy in ten days than he had learned in 50 years. Suddenly we were talking everywhere of sanctions, embargoes, boycotts, bases in Somalia, arms in Pakistan. We were talking of dramatic increases in the budget for defense—guns, not butter. And with the President's State of the Union address, millions of American parents began talking in the most intensely personal terms—in terms of their own sons and daughters.

"I believe," said Mr. Carter, "that our volunteer forces are adequate for current defense needs. And I hope that it will not become necessary to impose a draft. However, we must be prepared for that possibility. For this reason, I have determined that the selective service system must now be revitalized. I will send legislation and budget proposals to Congress next month so that we can begin registration and then meet future mobilization needs rapidly if they arise."

It may be useful to back off from that paragraph for a moment and to speak of symbols as opposed to substance. Wise leadership demands both.

In the three months that followed the Iranian seizure, Mr. Carter's responses were almost entirely symbolic. We rang our church bells, dimmed the lights on Christmas trees, fell on our

knees in prayers for the hostages' safety. We won paper resolutions from the General Assembly of the United Nations, a paper decree from the International Court of Justice. We ordered Iranian diplomats expelled and then failed for weeks to enforce the order. We talked of sanctions, but found no help from allies in imposing them. Repeatedly, Mr. Carter warned of consequences that would be grave or serious. If the hostages were harmed, said the President, "a severe price will be paid."

These were tinkling symbols. The Iranian militants greeted them with scorn. Very much the same reaction emerged with Afghanistan. It tells



us something of the role of sports in American life that, until he talked of draft registration, Mr. Carter had stirred the greatest controversy over a step that was entirely symbolic—the withdrawal of American athletes from the summer Olympic games in Moscow.

WHAT ELSE? Mr. Carter suspended plans for a U. S. consulate in Kiev and canceled arrangements for a reciprocal Soviet consulate in New York. He announced that Aeroflot, the Soviet airline, would henceforth be limited to two American flights a week instead of three. He put a chill on cultural exchanges. He postponed a bilateral conference with the Soviets on marine pollution. He ordered the Soviets' permissible catch of fish in U. S. waters reduced by three percent. He put a hold on the export of certain high technology items to the Soviet Union, and he embargoed the shipment of ten million tons of corn, 3.7 million tons of wheat, and one million tons of soybeans.

In terms of actually deterring Soviet aggres-

sion, it will be seen that all these moves were merely symbolic. They symbolized American alarm, resentment, indignation, and perhaps they symbolized American determination to resist. An attempt by any outside force to gain control of the Persian Gulf region, said Mr. Carter in a cryptic phrase, "will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force."

IT WAS IN THAT CONTEXT that Mr. Carter went on to call for the registration of young people in preparation for the possibility of a draft. And though it seems not to be widely understood, this call was also a symbol. The registration Mr. Carter has in mind might provide a three or four weeks' head start in the event of an actual draft, but an actual draft in a presidential election year is a barely perceptible cloud in a distant sky. Barring the calamitous outbreak of a shooting war between Soviet and American forces, the cloud will drift away. There won't be any draft. If a bloody encounter should occur, one of two events would follow swiftly—prudent armistice, or nuclear Armageddon. In either event, a draft would be useless.

So much for symbols. For the record, I happen to support every one of them, including the registration of both men and women aged 18 to 26. Cumulatively, these gestures may have a sobering impact upon the Kremlin and upon our allies, also.

The larger question, it seems to me, goes to a substantive response to the Soviet challenge. We are sufficiently prepared for Armageddon. We could wage 48 hours of devastating war with hydrogen bombs, though God knows what we would do in the 49th hour and thereafter. Are we sufficiently prepared for something less cataclysmic? Are our volunteer forces, as Mr. Carter said, adequate for current defense needs?

THE ANSWER IS FLATLY NO. The all-volunteer concept, instituted seven years ago, has failed. It has failed in terms of the numbers of men and women recruited; last year all four services failed to meet even the reduced goals that had been set for them. The system has also failed in terms of quality; nearly half of the new male volunteers tested mentally in the lower half of the U. S. population. The system has failed most gravely in its inability to hold experienced personnel; retention rates of first, second, and third-termers have dropped alarmingly. Former Defense Secretary Melvin Laird, in a hard-hitting essay prepared for the American Enterprise Institute, points to a shortage of 70,000 noncommissioned officers. These are the experienced people, trained in technological skills, who have simply dropped out. For the immediately foreseeable future, they are quite literally irreplaceable.

The all-volunteer regular forces were expected to work in conjunction with an active reserve force of one million members and an individual ready reserve of 700,000. But the active reserve is

200,000 short of authorized strength, and the ready reserves are down by 300,000.

If we are to make a substantive response to Soviet aggression, these are the problems that ought to be addressed swiftly. Why has the system failed in quantity and quality, and what can be done about it? The answer, says Mr. Laird, is comparatively simple: We must provide members of the armed forces "with a quality of life commensurate with the sacrifices we demand from them, and the primary ingredient in providing that quality is competitive pay and related benefits."

Out of sight, out of mind. Do most Americans understand what we pay our soldiers, sailors, airmen, and Marines? Mr. Laird lays the facts on the line. An E-4 airplane handler on an aircraft carrier in the Indian Ocean now works about 100 hours a week, handling \$25 million aircraft on a \$2 billion ship. The work is skilled, demanding, exhausting. "Yet he makes less per hour than a cashier at McDonald's, lives below the poverty level, is eligible for food stamps, and probably has not seen his wife and child for six months."

A CHIEF PETTY OFFICER on the same ship with 17 years of service "makes the same salary as a janitor on union scale and puts in twice as many hours."

Military personnel constantly are being transferred from base to base. They must pay more than \$1 billion a year out of their own pockets in moving expenses. The average move costs \$3,835; the armed forces reimburse the serviceman or servicewoman \$644. A GS-9 civil servant, transferred by the Agriculture Department, has the same moving costs; his reimbursement is \$4,500.

In theory, military personnel get free medical care for themselves and their families. In fact they do not. In theory, they get fair allowance for off-base housing. In fact they do not. A key provision of the all-volunteer concept seven years ago was competitive compensation: A truck driver, mechanic, or computer programmer in the army would be paid substantially what his counterpart in civilian life would earn. It hasn't worked out that way. As a consequence, as many as 275,000 military families may be eligible for public welfare; military commissaries take in more than \$10 million a year in food stamps; one third of the enlisted force works for less than the civilian minimum wage, and an estimated 20 percent of enlisted men and women take moonlight jobs.

MR. LAIRD calls this a national disgrace, and it is. If we are to staunch the appalling hemorrhage of experienced people in the armed forces, prompt action must be taken to remedy the situation by providing fair incentives for qualified people to join the armed services and to remain in them. It will cost a bundle. Mr. Laird's recommendation for an immediate 17 percent increase across the board, coupled with cost-of-living indexing for the future, won't come cheap. But if we truly mean to meet the challenges of the 1980s with substance instead of with symbols, this is the kind of response we must make. □



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Why Not Divest Some Government Agencies?

As an independent businessman in the logging and lumber industry, I feel it is time we got government spending under control. One method would be to operate government as a private business.

When a business has overspent, it cuts back on the overhead and generates new income. One obvious way to accomplish this would be to liquidate unprofitable assets. Some assets that could be eliminated without harming the function of government would be government land, the U. S. Forest Service, and the Bureau of Land Management.

Eliminating the forest and land management agencies would not eliminate jobs. It would merely transfer them to the private sector.

The land should be divided into small parcels and sold or put up for homesteading.

Timber has enough value that it could be grown on family farms just like any other crop. It would be more intensively managed under free enterprise than could ever possibly be done by government bureaucracies.

WARREN OWNBEY
Ownbey Lumber Co.
Princeton, Idaho

History revised

It might be well for Moreton Binn [People in Business, Dec.] to swap something for a history book. This will tell him that it was not Peter Stuyvesant who traded \$24 worth of baubles to the Indians for Manhattan Island, but Peter Minuit.

Both were colonial Dutch officials at about the same time in what is now New York.

ROGER RIENSTRA
President
Witherspoon & Associates
Fort Worth, Texas

A nonfan

For the life of me I can't understand why you run James J. Kilpatrick's columns. ["The Quadrennial Lunacy," Jan.] He is an admitted failure at business. I suppose he thinks of himself as

some kind of an intellectual. He goes through all this verbal riffraff about these crackpots who every four years get out and look for votes.

Mr. Kilpatrick says abstractly he is for reform, he supposes; then he tells us how he loves politics.

Why can't or doesn't NATION'S BUSINESS feature a writer who has constructive and positive ideas about business and its future? Somebody who would inspire the business community to make something, develop and improve products, and trade with the competitive world?

SARA B. CLARK
Clark Industries
Charleston, S. C.

Solution to staleness

For an exciting change from the horrific and stale politics of the Democrats and Republicans, James J. Kilpatrick need only turn to the Libertarian Party. ["The Parties Are Over, But the Politicians Linger," Dec.]

Libertarians champion individual freedom. They disdain pragmatic politics and offer, instead, a platform of principles.

They seek a competitive free market and a strict respect for civil liberties. They propose huge tax cuts, an end to deficit spending, the abolition of the Energy Department, and a repeal of victimless crimes.

Watch what the Libertarians do this year. Two-party politics will never be the same.

STEVE KELLEY
El Segundo, Calif.

Change of names

Regarding Mr. Kilpatrick's latest lament about the slow demise of the two-party system and his startling conclusion that nothing can be done about it, I would like to make a recommendation: The Democrats should become the Labor Party and the Republicans should call themselves the Conservative Party.

Perhaps all would not be woe if the voter had a choice of attitudes, a choice of what would be encouraged and what would be diminished.

This would eliminate the tiresome facade of people like Sen. Charles Percy of Illinois calling themselves Republicans and vice versa.

J. WILLIAM MILLER
Service International
Elmhurst, Ill.

Need for PACs

Corporate political action committees are a necessity to our country. [Outlook: "Corporate PACs Under Attack," Dec.]

Our government is supposed to be made up of checks and balances so that no one portion has all the power. But it is tough for us as individuals to help the kind of candidates we want elected. With PACs, we can elect the leaders this country needs. This is people power.

HUGH P. BOYD
The Murray Ohio
Manufacturing Co.
Brentwood, Tenn.

Public sector unionism

The article on unions ["Where Unions Are Headed," Dec.] largely ignored a substantial part of potential union expansion in the 1980s—the public sector. Your readers should be told about the impact of growing unionism in local, state, and federal agencies on both the economy and representative government.

THOMAS A. SHANNON
Executive Director
National School Boards Association
Washington, D. C.

Sharing

Thank you for a fine publication. In particular, I enjoy your Lessons of Leadership articles and various special reports. As a professor of business, I often share comments and ideas from your magazine with my students.

GERALD L. HERSHEY
Professor
University of North Carolina
Greensboro, N. C.

Alcohol replacement

Opinion polls show that the majority of people believes the gasoline shortage was a hoax. But the cruel truth is that there is just so much crude oil under the surface of the earth, and what's left is more and more difficult to find and get.

We must replace gasoline with a fuel that can be produced abundantly and economically for centuries to come. That fuel is alcohol.

It has been demonstrated that, with modifications, gasoline engines can

utilize alcohol at high efficiency. Gasohol is already being used successfully in some states. But straight alcohol is the complete answer because it is distilled from fermented farm crops, which are replenishable season after season.

Nothing prevents us from going all out in the production of alcohol but ignorance and lack of far-sighted, vigorous leadership. That leadership should come from Washington.

If we will, we can stop relying on shortening supplies of foreign oil and make our country self-sufficient in its

fuel requirements. I suggest the following procedures be implemented as quickly as possible:

- Use government lands to grow crops for alcohol production;
- Develop better methods of producing alcohol;
- Modify gasoline engines to utilize alcohol efficiently; and
- Produce and distribute more alcohol than is needed for all engines presently using gasoline.

RICHARD K. LOTZ
President
The Printing Place, Inc.
Oak Brook, Ill.



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Should the U. S. Embargo Grain to Russia?

IN RETALIATION for the Soviet invasion and occupation of Afghanistan, the United States has suspended the shipment of 17 million metric tons of grain, mostly corn earmarked for feeding Russian livestock.

The legal authority for the suspension comes from the Export Administration Act of 1979. President Carter used two of the act's three provisions to justify the embargo—national security and trade policy.

Plagued by another in a series of poor harvests, the Soviet Union was depending on America's rolling heartland for about eight percent of its grain needs. But dependence on U.S. tractors didn't deter the Red Army's tanks from rolling into neighboring Afghanistan.

National security adviser Zbigniew Brzezinski argues that the United States can hobble future Soviet mili-

tary advances by refusing to trade anything that could improve the Soviets' economic efficiency and growth.

And since the Russian people have been promised an upgrading of the national diet, the embargo may fuel discontent in a society already suffering from an undersupply of consumer goods and an over-demand for basic services.

Secretary of Agriculture Bob Bergland pledges that U.S. farm income won't suffer. He says the federal government will buy the embargo-created surplus to the tune of \$2.3 billion.

Although the embargo may punish Russia, it may also damage America's sputtering domestic economy.

Most of the money for bailing out American grain farmers comes from the fiscal 1980 budget, which will help swell an inflationary deficit that is now expected to reach \$40 billion.

Farm exports flourished in the 1970s, growing fivefold to \$32 billion in 1979. By cutting out a projected \$3 billion in sales to Russia, the U.S. trade deficit will be larger. And when farm income or acreage falters, grain transporters, farm machinery manufacturers, and seed, fertilizer, and pesticide suppliers also suffer.

The embargo might also make U.S. trade partners nervous—perhaps nervous enough to shop around for suppliers who don't use food as a political weapon.

Notes one international trade analyst: "The United States shouldn't burn its bridges with Russia. Economic sanctions have limited impact on political decisions. Don't fool yourself that an embargo will force Russia to pull out of Afghanistan."

What do you think? Should the United States embargo grain to Russia? ☐

PLEASE CLIP THIS FORM FOR YOUR REPLY

Editor
Nation's Business
1615 H Street N. W.
Washington, D. C. 20062

Should the U. S. embargo grain to Russia?

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Public Hearings—New Turf for the Executive Crusader

By Jean Mater



Business can make better use of public hearings, say experts who note that more issues today are being brought into public forums. Organization and coaching will help business people have a bigger impact on vital decisions.

PUBLIC HEARINGS have become arenas for local regulatory battles, especially in burgeoning suburbs and rapidly expanding cities.

In some areas the permit explosion has spawned a public hearing explosion. Business executives often find themselves pitted against an army of no-growth advocates, protectors of air, water, scenery, and historical buildings, and street groups zealously guarding their turf.

Public hearings provide a platform for citizens to debate a variety of actions, from building highways and roads to installing microwave reflectors to constructing refineries, factories, and apartment complexes to establishing ski resorts and revising hunting regulations.

The public hearing frequently provides the only stage where citizens can explain their views. But in

this role business executives are frequently upstaged by the street-smart opposition, which has learned how to use public hearings to win public support.

Most business people still have to learn that it is folly to take public hearings lightly. You have to use them—or you lose them.

A city councilman in a small growing city notes: "I sit through at least 200 hours of public hearings every year. The business people whose proposals we're considering send their lawyers, while the opposition parades a string of housewives, professionals who volunteer their services, and other citizens to speak passionately against the proposal. And business people wonder why they lose so many decisions."

Business people who must put out a full day's work—no matter that they

stuck through a long session the previous evening—find the increasing demands of these hearings a drain on their time and energy.

Many cope by staying away. One developer reflects the majority opinion: "Public hearings don't solve anything anyway. Why waste time?"

Input from a handful

Result? Except for the rare issue that mobilizes the business community, business people fail to use public hearings to communicate their views. The public decisions then reflect the opinions of the citizens who do speak out.

"A handful of citizens can stop any activity if there aren't two handfuls of business people to speak for the public benefit of the activity," a business executive observes.

William Sneath, chairman and chief executive officer of Union Carbide Corp., in a recent address urged business to know when to get involved.

"Business people were rightly heartened when the Supreme Court said that a corporation could speak out in a referendum that wasn't directly related to its business," he says. "Sometimes it seems there is precious little that isn't related to a corporation's business."

"The democratic system works by balancing interests, and that's all that anyone should expect. We should look for opportunities to set an example."

A management task

Recognizing that public hearings are now as necessary an activity as personnel or financial management, some business organizations are training their members to be effective participants.

At a seminar on how to be more effective at public hearings, the Southwest Association of Chambers of Commerce in Oregon told participants

See 3 states in 3 hours.



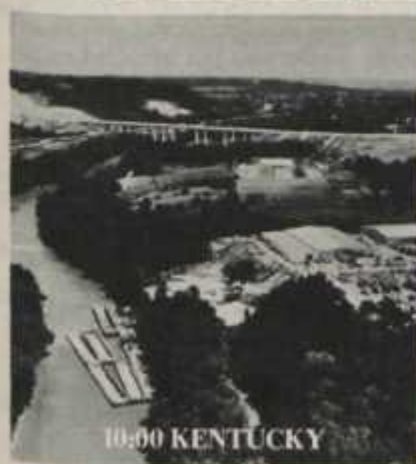
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M. W. Johnson, Director of Area Development
The Cincinnati Gas & Electric Company
139 East Fourth Street Cincinnati, OH 45202

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*Names of companies available on request.

that preparing for public hearings increases the chances to be a winner.

There are four basic preparations: Be informed, prepared, organized, and there.

Be informed

At a workshop on citizen activists, Oregon business people learned the necessity of determining the legal, procedural, and physical requirements of each public hearing.

"If you come to a public hearing without learning the authority of the hearing panel, what local ordinances apply, and the voting record of the decision-makers," a consultant warns, "you've lost your fighting chance."

Before stepping into the hearing room you should know:

1. Whether oral presentations will

be made on a first-come, first-served basis or by random selection.

2. Which of your speakers must leave by 10 p.m., 11 p.m., midnight.

3. Where the microphones are.

4. Whether visual aids will be visible throughout.

5. Whether presentations will be limited to three minutes, five minutes, or no limit.

6. Who is leading the opposition, and whether they are experienced or new to local politics.

7. What their objections are.

8. Where the local press stands and if it is influential.

Be prepared

Prepare for a public hearing the way you would for an important sales meeting. This may be one of the most significant sales you ever make: You're selling the practical benefits of our economic system.

Prepare by:

1. Obtaining slides, films, or illustrations to dramatize your message.

2. Assembling experts to testify. A public hearing on a new road calls for experts on transportation and noise. If the hearing is on a health hazard, find experts on health and medicine.

3. Coaching the experts to avoid presenting testimony as if they were speaking to a board of directors or scientific colleagues.

4. Devising strategies to defuse any controversy.

For example, a group of business people in a small city, weary of a five-year struggle to complete a scheduled road, determined to prepare fully for the next hearing.

They evaluated the strategies successfully used by the opposition to stall the road; they prepared counter strategies. They appeared themselves; they encouraged employees and associates to attend. They gave the hearing their best.

Result: A show of overwhelming support for the project, a dramatic turnaround from earlier hearings.

Be organized

A city planning director who finds himself spending at least two evenings every week at public hearings remarks: "I can tell who's really determined to push a project by the way they are organized at the hearing."

Organization for public hearings means:

1. Furnishing speakers with fact sheets.

2. Asking speakers to bring written

remarks in addition to presenting oral testimony.

3. Urging supporters to be brief and to the point.

4. Recognizing that every public hearing plays to two audiences—the decision-makers and the media.

Colorful buttons or tags heighten the visibility of supporters and identify them for the media. Written handouts help in reporting facts. The most dramatic testimony should be presented while television cameras are there.

5. Appointing a floor manager to check speakers, call substitute speakers, and distribute buttons or tags.

Be there

Turning out a sizable business contingent is the most difficult of the four tasks.

A mayor serving his third term warns: "Numbers count at public hearings. If 40 people object to a project and only five speak for it, we decide the public is opposed."

Public administration specialist Susan Walker Torrence confirms the mayor's warning in her book, *Grass Roots Government*: "Decisions of public officials reflect pressures from the general public and from special interests."

A chamber of commerce manager relates a typical story: "We had to phone 115 business executives to get ten to the public hearing for a project we're supporting. Businessmen haven't the time or don't want to get involved."

One solution: Reduce the individual work load by developing a network of business people who can be called on to testify at public hearings.

Another solution: Form a grass-roots group with a catchy name to beat the drums for an important local issue. This group can mobilize the testimony for public hearings.

Use them—or lose them

Public hearings are the fighting front for decisions affecting business. If business doesn't use them to explain the business position, the battles will be lost.

One businessman regards it as an opportunity: "A battle is a risky business, but if we avoid it, we lose all chance of possible gain. If we don't engage in the battle, we lose all our clout." □

DR. MATER is vice president of *Mater Engineering*, a consulting firm in Corvallis, Oregon, and director of the Portland branch of the San Francisco Federal Reserve Bank.

How to Use Public Hearings

Be Informed

- Find out the order of testimony and time limits.
- Check the meeting room logistics.
- Determine who the opposition is. Are they political sophisticates?
- Who is their leader? How influential is the leader?
- Is the local press with you?

Be Prepared

- Develop slides, graphs, and films.
- Assemble credible experts to testify.
- Prepare strategies and trade-offs.
- Prepare a list of people to testify.
- Contact each person on list.

Be Organized

- Develop a fact sheet on the issue.
- Notify each speaker of time limits and procedure.
- Supply material to media.
- Identify your supporters with buttons or badges.

Be There

- Organize a public hearing network.
- Form a special grass roots group for the issue.
- Develop a calling list.
- Find a broad base of community supporters—housewives, volunteer professionals, students, etc.

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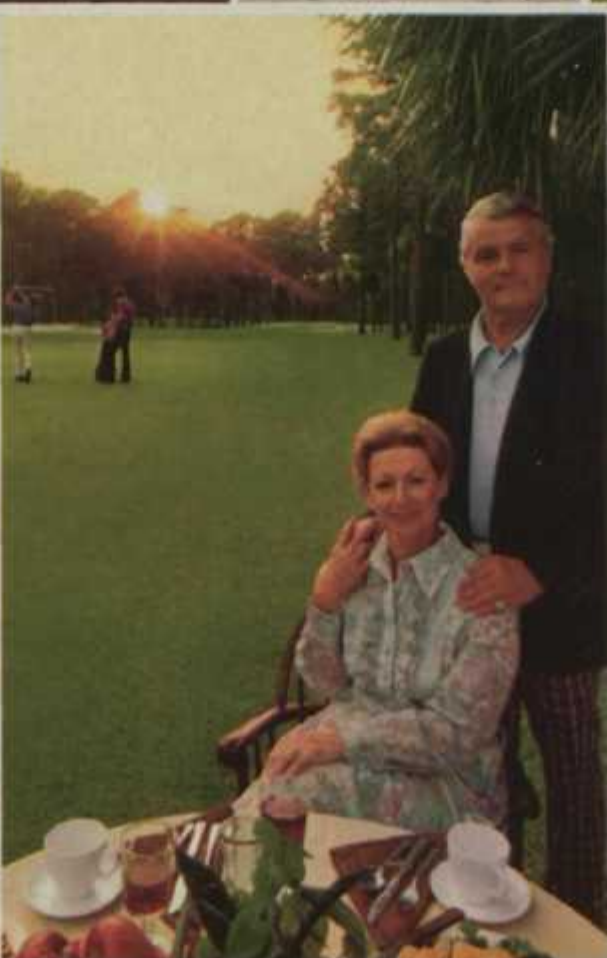
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Readers Like Gasohol Subsidy, But Only If...

HOW TO SOLVE this country's fuel shortage appears to be uppermost in the minds of NATION'S BUSINESS readers, judging from the record number of responses to the January Sound Off question: "Should the government subsidize gasohol?"

The vote was almost two to one in favor, but many who support a federal subsidy also want to condition government help by making it temporary.

"Gasohol has tremendous potential and the federal government can help accelerate technological breakthroughs by subsidizing early production efforts," says Jon Ewert, senior vice president for finance at Agland, Inc., Eaton, Colo.

But even a limited government involvement is too much for many who voted against a subsidy. "We don't need any more subsidies," says Dale A. Newton, president of Sanitary Disposal, Inc., Chippewa Falls, Wis. "We need tax incentives. A tax incentive to develop gasohol at a competitive price will be the sort of thing we built our country on... free enterprise."

Others shared the view of Dirk H. Medema, manager, Willmar Hi-Way Furniture Co., Willmar, Minn. "Anytime the government does anything, it's a flop."

Some opposed gasohol on its own merits. "After accounting for the energy required to make gasohol, the net gain is hardly worth the effort," says William Hickey, president, the Exeter Corp., Midland, Texas.

But those who have tried it think differently. And a surprising number of those who voted for a subsidy are already using it in some form. "We have promoted the sale in our area for six to eight months," says James Claerbout, executive vice president, chamber of commerce, Worland, Wyo. "I have used it in my car, and it works fine. It is time we became less dependent on foreign oil."

William P. Gelinas, executive secretary, American Association of Professional Bridal Consultants, West Hartford, Conn., said his organization had asked the same question in a re-



Richard M. Wright III, second vice president, The National Life and Accident Insurance Co., Nashville, Tenn., says: "We need research to learn how to produce ethanol from wood, weeds, even garbage, as well as grain."



Rep. Floyd J. Fithian (D-Ind.): "If the rigorous efficiency standards applied to the production of fuel ethanol from agricultural products were applied to other energy technologies, gasohol's potential would be even more apparent."

cent newsletter. "The 150,000 members and their employees think gasohol subsidies will be good for the United States."

Arthur Nau posed the question to sophomore students enrolled in his driver education classes at Souderton Area High School, Souderton, Pa. By slightly more than four to one, the students favor a gasohol subsidy. Rita Wellington says: "The United States should try to become more independent and start thinking about the future."

Most students who oppose a subsidy do so on the basis of cost, but some agree with Matt Febus, who says: "I think the government should subsidize another fuel so we don't have to depend even on decreased imports of gas, oil, or natural gas."

Others suggested increased solar energy research.

But even readers who favor a subsidy do not expect it to solve the problem. "We all know that alcohol is not the full solution to our oil problem at this time, but it is a start," says Leo Grosch, president, G & G Manufacturing Co., Chicago, Ill. "A ten percent

saving of gasoline is surely a giant step in the right direction."

Ray Griffin, executive vice president, Bergen Bluestone Co., Inc., Paramus, N. J., says: "Even if production of ethanol were only eight percent of our liquid fuel needs, that is far better than nothing. Distilleries could be fueled by coal, of which we have an ample supply. Any independence from OPEC should be encouraged."

"If Brazil can do it, so can we," says Stewart Warbis, owner of Double S Upholstery and Repair, Las Vegas, Nev.

"It looks as if we have subsidized the Middle East too much already. Let's keep some of our money at home," says Tom Shirley, president, Home Oil Co., Ashford, Ala.

Among the readers in favor of a subsidy, a number agreed with Paul J. Jeney, sales engineer, Topp Engineering Sales Corp., Bellevue, Wash.: "Why not? Considering the countless useless outdated subsidies we are now supporting, gasohol will at least provide a degree of independence to our nation with benefits being divided among several sectors from farmer to user." □

THE ECONOMY

Inflation Cure: Higher Taxes and Austerity

Inflation remains the nation's number one economic problem, says President Carter's 1980 Economic Report to Congress, a problem attributed to higher oil prices no fewer than 19 times in the 13-page text.

When it comes to remedies, though, the President talks mainly of reducing the federal budget deficit by holding down spending and foregoing tax cuts. "Austere budget policy, accompanied by monetary restraint, is a necessary condition for controlling inflation," he says.

The President acknowledges the need for tax relief to stimulate business investment and compensate individuals who are pushed into higher tax brackets, but "to have recommended a tax reduction and much larger budget deficit would have been a signal that we were not serious in our fight against inflation." Reducing inflation



Inflation could be controlled in two or three years, says economist Richard Rahn.

to the three percent range will require at least eight years, he says, but that conclusion is disputed by Richard Rahn, vice president and chief economist of the Chamber of Commerce of the United States. "I think we could bring it down quite rapidly, at least within two or three years," Dr. Rahn says.

President Carter also acknowledges that it is no longer practicable to achieve the targets of four percent unemployment and three percent inflation set for 1983 by the Humphrey-Hawkins Act. Those goals have been revised to four percent unemployment in 1985 and three percent inflation in 1988.

New Wage Ceiling of 9.5 Percent Adopted

The Carter administration wants to limit wage settlements this year to 9.5 percent, but will allow more under special circumstances.

The Pay Advisory Committee—of labor, business and public representatives—has recommended a permissible pay range of 7.5 to 9.5 percent.

The committee hopes that most settlements will be at the 8.5 percent midpoint. In 1979, the pay guideline was seven percent, but wages increased slightly more than eight percent because of numerous exceptions.

Committee Chairman John T. Dunlop says exceptions that would allow pay adjustments beyond 9.5 percent include productivity improvements, acute labor shortages, gross inequities, and undue hardship.

New Certificate May Slow Deposit Outflow

The savings bank industry hopes that the new 30-month money-market certificate will help to slow further a deposit outflow that was already showing some improvement at the end of last year.

The net deposit outflow in December

was \$950 million, the industry's worst December on record. The previous high loss for the month was a \$405 million outflow in December, 1978.

But, says Saul B. Klamman, president of the National Association of Mutual Savings Banks, "this represents a substantial improvement from October, when savings banks experienced a net deposit outflow of \$1.4 billion."

The new market-linked, 30-month certificate, unlike most other money-market certificates, has no minimum deposit requirement. For it to have a significant impact, Mr. Klamman says, "there must be a broad public perception that interest rates are past their peak and on the way down."

At the close of 1979, deposits at mutual savings banks totaled an estimated \$145.7 billion, up \$2.9 billion from December, 1978. Total assets of the industry stood at \$163.5 billion, compared with \$158.2 billion a year ago.

Ways to Speed Up Technological Progress

Lagging technological progress is a cause of this country's poor rate of productivity improvement and contributes to inflation, says a report from the Committee for Economic Development, a New York City business research and education group.

The report, which warns that America's long lead in technology is disappearing rapidly, recommends:

- Adoption of a more rapid capital recovery tax allowance.
- Reform of the federal regulatory process, including improved congressional oversight, economic evaluation of rules, substitution of performance standards for detailed specifications, and periodic evaluation of rules.
- Across-the-board tax rate reductions for capital gains and personal and corporate income taxes.
- Changes in patent policy, including the awarding of patents on a first-to-file basis.

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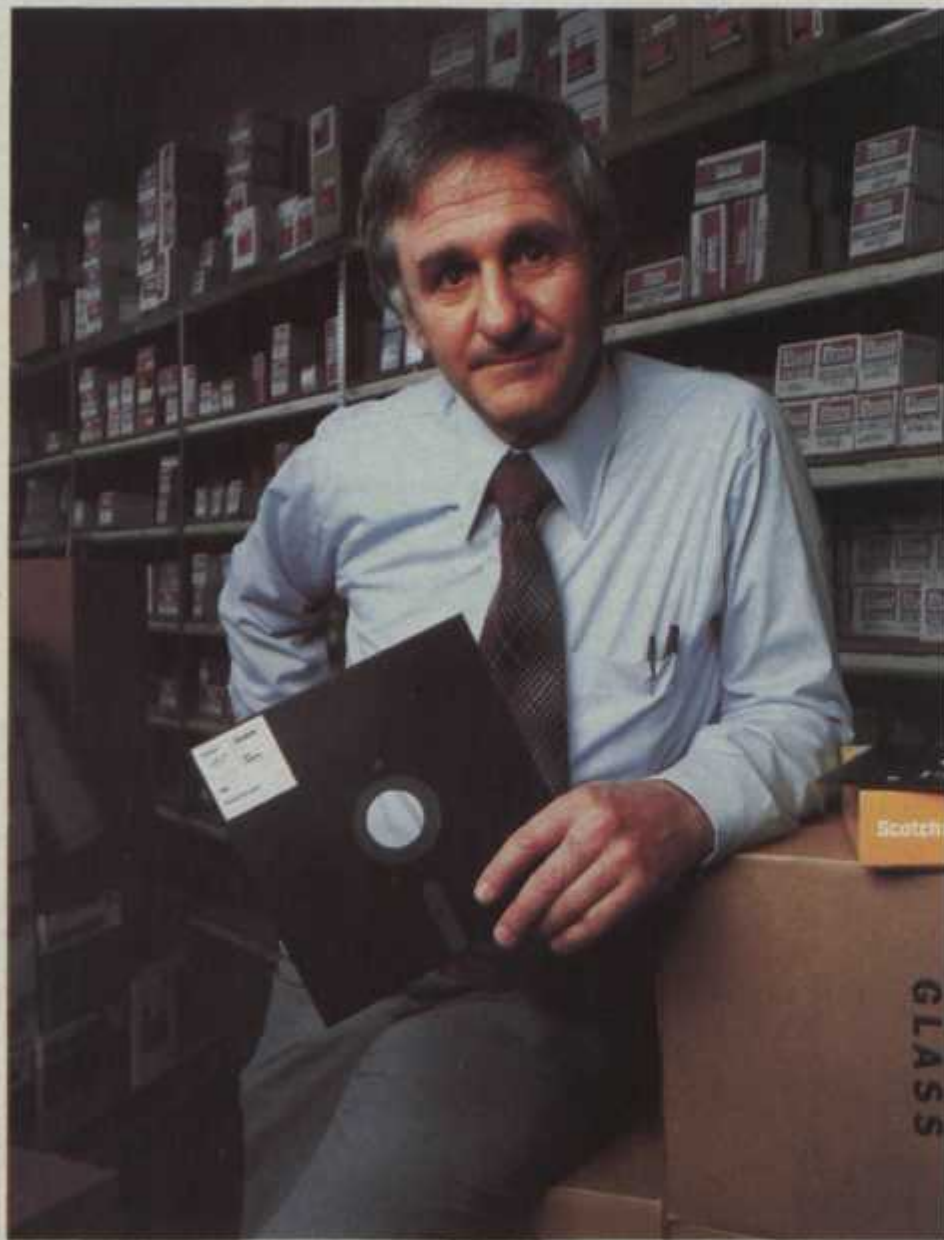
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The loss of influence by the major political parties has contributed to voter indifference in the United States despite the efforts of dedicated party workers and local headquarters.

The reality is that fewer and fewer voters are going to the polls in each successive election. In the 1976 presidential election only 56.5 percent of the eligible voters showed up. That was substantially down from the 64 percent voting in 1960, a figure that President Kennedy found shocking.

Off-year congressional elections are drawing fewer than half of the eligible voters. Unless emotional issues or controversial candidates pep up interest, most local and state elections have about as much appeal to voters as a trip to the dentist's chair.

No guesses

"The level of voter participation in America, while never as high as in some European nations, is lower today than in any democracy in the world except Botswana," says Curtis Gans, a director of the Committee for the Study of the American Electorate. In some western European nations, a 90 percent turnout is not unusual.

None of the experts will hazard a guess on how many people will bother to vote in the November presidential

election, but most generally agree that nothing has occurred in the four-year interim to suggest that the downward trend of voter participation has leveled off. If anything, given a pair of lackluster candidates, voter turnout could end up approaching the 50 percent mark.

Ironically, voter disinterest is spreading at a time when the privilege of voting has been extended to a great many more Americans and the act of casting a ballot has never been easier.

In recent years the voting age has been lowered from 21 to 18 years, literacy tests have been wiped off the books, and the poll tax has been eliminated. However, those groups for whom voting has been made easier—blacks and young people—have the poorest voting records.

There are several theories on why people don't vote, but the principal one is disenchantment with the political process. Many potential voters, especially in national elections, are convinced their votes have no impact or that one candidate is as unlikely as another to solve national problems.

Some political observers blame the

major political parties, which they say are no longer able to maintain voter interest. The impact of television, the proliferation of presidential primaries, and the so-called party reforms also dampen voter enthusiasm, they claim.

Two-party domination

Other experts say the low turnout is the fault of the system itself. For example, only in the United States is the responsibility for registering entirely the voter's. In many countries the government assumes that burden.

Also, elections are less competitive in this country where two parties dominate the process. At the same time, Americans are asked to vote far more often for a longer slate of office-seekers and issues than voters elsewhere. More than 500,000 men and women are elected to public office. While not typical, there was a situation a few years ago in the Chicago suburb of Glen Ellen where the residents could have voted 11 times in four weeks.

Is there a danger in America's neglect of the franchise?

Maurice Rosenblatt, president of the

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Nice	93
Nîmes	66
Orleans	38
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Perpignan	68
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Rouen	35
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Toulouse	61
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Antwerp	31
Bruges	50
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Louvain	16
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Mons	65
Namur	81
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Valencia	6
Zaragoza	70
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Barretro	19
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Cyria	69
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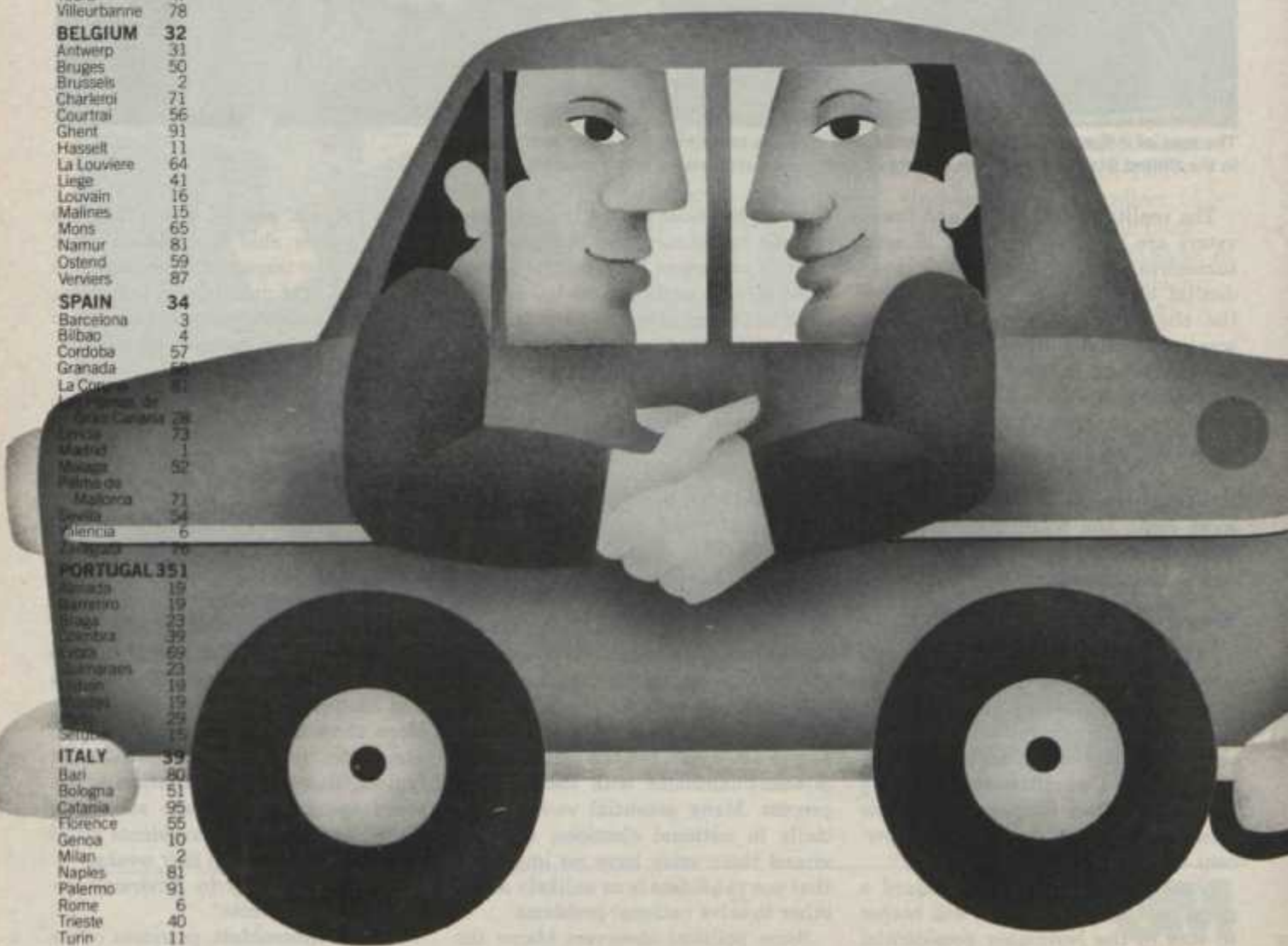
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Committee for the Study of the American Electorate, says:

"The danger lies in who is not voting. Many of the educated, involved, stable elements of the community are dropping out of the process. And many of those remaining are involved in single-issue matters—gun control, abortion, school busing, women's rights. As the number of voters declines, the influence of the single-issue, special-interest voter increases.

Fragmented society

"These are largely theoretical issues, not bread-and-butter issues. They are the kinds of emotional issues that have divided Ireland and promoted the separatist movements in Canada and Spain.

"If people vote only on single issues to the exclusion of all else, you wind up with a fragmented society, a fragmented Congress, and a President who has no way of creating a consensus. This is the danger."

Mr. Gans agrees with Mr. Rosenblatt that the declining voter interest among educated, white-collar professionals, coupled with the large number of young people who turn their backs on the system, endangers the U.S. form of government. Writing in the American Enterprise Institute magazine, *Public Opinion*, he says:

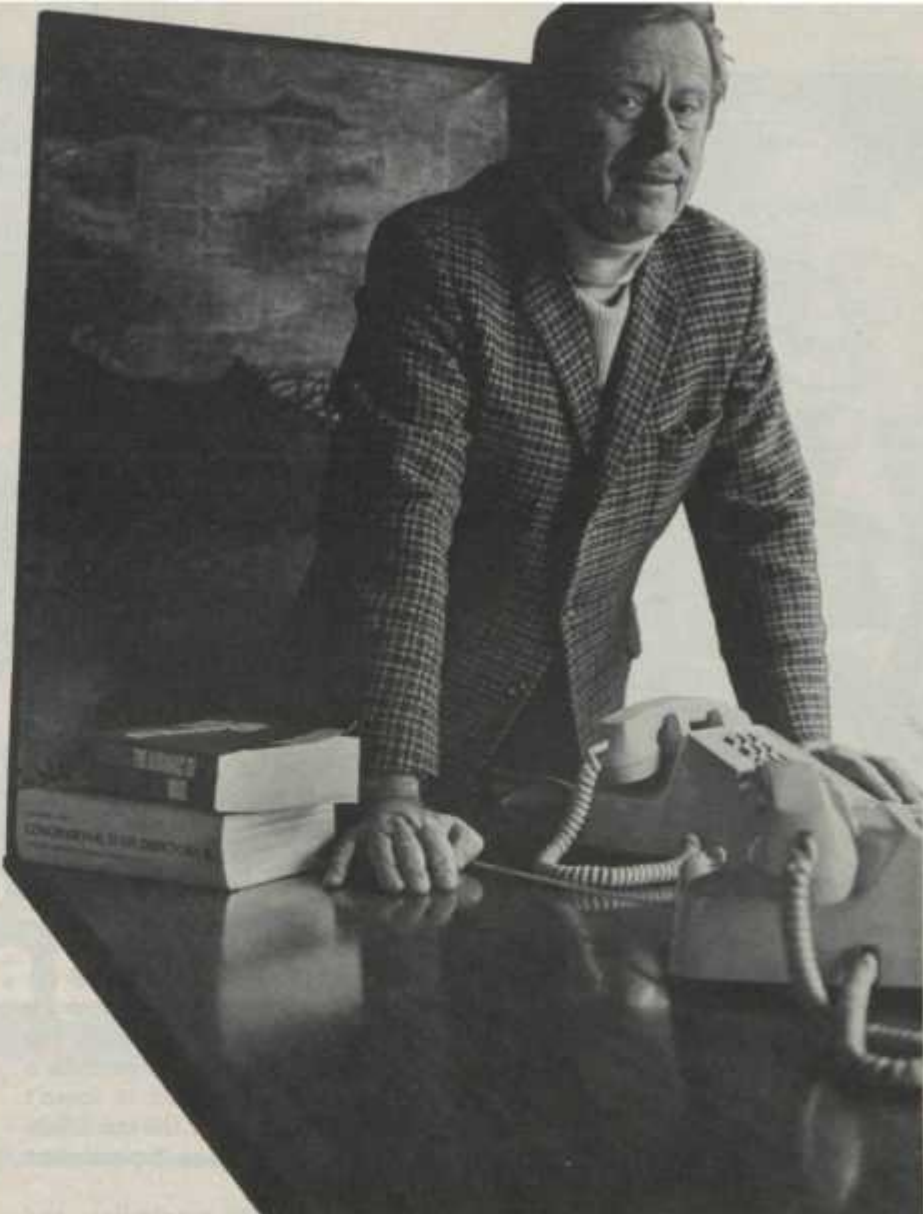
"There is the very real danger that the habit of good citizenship—of civic virtue—that has been so intrinsic a part of the American voluntary democratic process will atrophy and die, and that government of the people, for the people, and by the people will become government of the few, by the few, and for the few."

Undue influence

Mr. Gans points out that, as the influence of organized interest groups increases, the ability of the political system to produce public policy in the interest of society as a whole declines.

"Public employees, who constitute one sixth of the employed adult population and whose turnout rate is normally quite high, might well have a disproportionate effect on the outcome of elections in a diminishing electorate. Consequently, they as a group could have undue influence on the course of public policy with regard to such issues as civil service reform or government reorganization," he says.

Dr. Herzberg of Georgetown University poses two provocative questions: "Does the candidate who won really have a legitimate mandate?" And:



Maurice Rosenblatt, a student of American voting habits, is concerned that voting strength is falling into the hands of people who focus only on special interests.

152 Years of Voting

Here is the percentage of eligible voters who voted in presidential elections during the past century and a half:

Year	Percentage	Year	Percentage	Year	Percentage
1824	26.9	1876	81.8	1928	56.9
1828	57.6	1880	79.4	1932	56.9
1832	55.4	1884	77.5	1936	61.0
1836	57.8	1888	79.3	1940	62.5
1840	80.2	1892	74.7	1944	55.9
1844	78.9	1896	79.3	1948	53.0
1848	72.7	1900	73.2	1952	63.3
1852	69.6	1904	65.2	1956	60.6
1856	78.9	1908	65.4	1960	64.0
1860	81.2	1912	58.8	1964	61.7
1864	73.8	1916	61.6	1968	60.6
1868	78.1	1920	49.2	1972	55.4
1872	71.3	1924	48.9	1976	56.5



"What if we call an election and nobody shows up?" asks Donald Herzberg, who would rather trust the parties.

"How many of us have to fail to vote before the validity of the election process itself is in doubt?"

Dr. Herzberg is convinced that the steady erosion of the two-party competitive system is the crux of the problem and that the so-called party reforms are responsible.

"I'd rather trust the old parties to make judgments than what we have today," he asserts.

In his view, the increase in presidential primaries—a record 36 this year—also share blame for voter indifference.

Dr. Herzberg recommends that if less than 40 percent of the eligible electorate fails to vote in a primary, the results should not be binding, and a statewide convention should then select national delegates.

Nullifying primaries

Using his yardstick, 14 of the 27 presidential primaries in 1976 would have been nullified. The average turnout for all 27 primaries was only 41.2 percent, with the District of Columbia registering a mere 11.1 percent of eligible voters.

"A low turnout in a primary is probably unreflective of the voters registered in that party," he says. "A proper convention process is a better

way of reflecting voter concerns in their political party."

A clue to whether the decline in voting will level off or continue could come from the voting habits of those who are part of the baby boom following World War II.

Baby-boom voters

"The degree to which the baby-boom generation is becoming politicized could provide the answer," says Lee Auspitz, former president of the Ripon Society. "The normal pattern has been that, as people get older, marry, and have kids, they start voting. So voting participation increases among people in their 30s. The baby-boom group now is in that category."

Mr. Auspitz, who is writing a book on public philosophy, is worried that the function of voting, which is to set long-term directions for public policy, may be changing.

"People may see voting as a way of deciding which television channel to watch for the news rather than which candidate they should get behind and support," he explains.

"In other words, we're losing our sense of commitment. If voters are going to make their decisions on short-range considerations about how the candidate looks or whether he flubs a question in a debate, then it doesn't make any real sense for the candidate to make any long-range commitment to the voter.

"Some candidates manipulate the voter with short-term tricks. And modern polling techniques make it possible to target segments of the electorate with a specialized appeal."

Like buying toothpaste

Mr. Auspitz opposes election-day registration to make voting easier. "This is another way of catering to a voter's short-range interests," he points out. "If they get excited on that day, they'll vote. If not, they won't."

"People should think about voting the way they think about buying a house or car, not the way they buy a newspaper or a tube of toothpaste."

Only three times since 1824, when reliable records were begun, has less than 50 percent of the electorate turned out to vote in presidential elections. That was in 1924, when 48.9 percent voted; 1920, which registered 49.2 percent; and 1824, 26.9 percent. Conversely, the record outpouring of voters occurred in 1876, when 81.8 percent cast ballots.

The fluctuations in voter turnout

from national election to national election cannot be precisely pinpointed. Whether Americans vote more often or less frequently in bad or good times is not clearly established. However, a decline in voting by Democrats between 1964 and 1972 can be traced to intraparty hostility over the war in Vietnam. Similarly, large numbers of Republicans stayed away from the polls in the congressional elections of 1972 and 1974 because of the stigma of Watergate.

Matching voters' ages

Americans tend to show more interest in exercising the franchise as they get older, according to a study undertaken by the Bureau of the Census after the 1978 congressional elections. The percentage of voters almost matched the ages of those voting.

For instance, 18.4 percent of the 18-year-olds voted, 28 percent of the 26-year-olds, 57.1 percent of the 54-year-olds, and 63.7 percent of the 63-year-olds. In those elections the 63-year-olds scored highest in voter participation, with the number then dropping off gradually among older citizens.

Like President Kennedy, President Carter was worried about the fall-off in

Profile of a Voter

What kind of Americans are most likely to vote?

The Bureau of the Census made an indepth study of voters in the 1978 congressional elections and came up with these answers:

- Homeowners are twice as likely to vote as renters—59 percent and 28 percent, respectively.
- People who have lived in the same house for a long time vote more than those who have recently moved.
- Married couples with families are more likely to go to the polls than other relatives living in their households and twice as likely as nonrelatives.
- College graduates are more than twice as likely to vote as those who did not complete elementary school—64 percent and 29 percent, respectively.
- White-collar workers vote more than those in other occupation groups.
- People 65 years and over are nearly three times as likely to vote (56 percent) as 18 to 20-year-olds (20 percent).



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the information's kind of spotty. When that happens, we have a little saying: 'if you don't know—then go.'

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voter participation. Soon after he became president, Mr. Carter unveiled, with much fanfare, a comprehensive election reform package. Among other things it would have permitted post-card and election-day registration of voters, abolished the electoral college, and revised the 1939 Hatch Act to allow most federal workers to participate in partisan politics.

The entire reform package was dumped after considerable bickering among congressional Democrats and Republicans.

As Richard Moe, chief of staff for Vice President Walter Mondale and architect of the Carter proposal, put it: "It's obviously not a very good year for election reform."

The Republicans saw disadvantages to themselves in some of the proposals. For example, it was estimated that President Carter would have carried nine additional states in 1976 if election-day registration had been in effect. The likelihood of fraud at the polling site was raised with equal vigor by both Democrats and Republicans.

John H. Hanly, chairman of the Chicago Board of Election Commissioners, told a congressional committee:

"Mandating registration at the polling place on election day will set the cause of honest elections back many years. The proposal will simply create chaos in our polling places."

Bogus ID cards

Two Republican House members, Robert K. Dornan of California and Steven D. Symms of Idaho, told a press conference that anyone with false identification cards could show up at the polls, register, and vote. To underscore their point they flashed bogus ID cards bearing the names of seven Democratic members of the House Administration Committee which was considering the matter.

During the controversy the *New Republic* asked: "What if election-day registration doesn't work? What if we abandon preregistration and the same tendency toward declining participation reappears? What next? Voting by telephone? Forcing people to vote?"

At the American Bar Association seminar on "The Disappearance of the American Voter," panelists agreed that fewer and fewer Americans believe it necessary, important, or even worth their time to vote.

Walter Dean Burnham, professor of political science at the Massachusetts Institute of Technology, labeled the problem a significant crisis in Ameri-

can politics. "It is entirely possible that referring to politics in the 1920s and the 1940s as the politics of happiness was not too far off the mark. It is very hard to make such an assumption in the late 1970s when you have rancorous, abrasive, and divisive hyperpluralism flying through the air."

"Individual constituency groups run around saying, 'we live and die on this issue,' whether it be Proposition 13 or abortion. This hyperpluralism is a symptom of the disintegration of basic political structures every bit as much as the decay in voter participation."

Dr. Burnham told NATION'S BUSINESS it is highly likely that fewer than 50 percent of the eligible voters will turn out in November. "People no longer rely on politicians to help them out of their problems," he says. "In fact, some of them think politicians actually make the problems worse than they are."

Jury service

Some Americans will not vote simply because they don't want their names on a registration list which is open to public inspection. The reasons are many. They are afraid that registration could lead to an investigation of income tax returns. They may be hiding from the law or wanted by an estranged spouse for nonpayment of alimony. And others won't register because that might subject them to jury service.

Getting the vote out is not always easy, but sometimes a gimmick will do the trick. Some years ago, Mayor Orville Hubbard of Dearborn, Mich., displeased with a low turnout in municipal elections, put this question on the ballot: "Should we end the Vietnam War?" The turnout was extremely high.

Doors locked

Puerto Rico for many years has had the highest voter registration and turnout of any jurisdiction in the United States. Puerto Rican voters have until 2 p.m. on election day to get to the polls. Then the doors are locked, and roll is taken of all registered voters. Only after all the votes are cast are the doors unlocked and the voters allowed to leave.

Now that is changing. In November, a new law goes into effect. Puerto Ricans will be voting as all other Americans do, from dawn to dusk. There will be no locked doors. And if the Puerto Ricans follow the mainland trend, they'll stay away in droves. □

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EP310

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Doubtful Assumptions

HIGHLY INFLATIONARY is what critics are calling the national budget for fiscal 1981, a budget President Carter deems prudent and responsible.

The choice of adjectives depends on assumptions made about spending and revenues. The art of budget writing dictates adoption of the most favorable assumptions. Experience suggests otherwise.

Receipts for the fiscal year, which begins on Oct. 1, are estimated at \$600 billion, and outlays at \$616 billion, leaving a deficit of \$16 billion.

The President proudly describes the projected deficit as the lowest in seven years and the second lowest in the past decade. Even so, it would be considerably higher than the lowest deficit—\$4.7 billion for 1974.

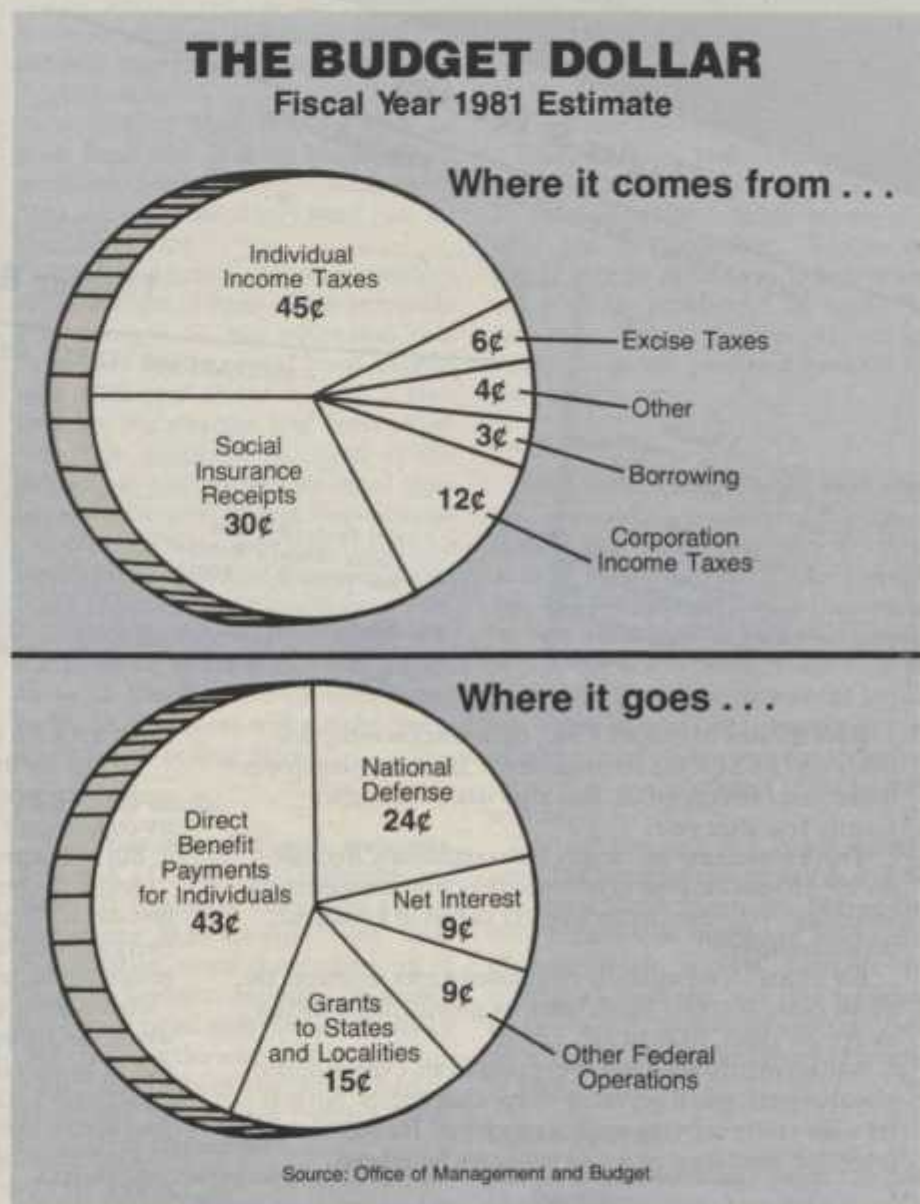
But hardly anyone expects the 1981 deficit to stay at \$16 billion. Budget deficit projections tend to be floors, not ceilings. The deficit for fiscal 1980 was originally estimated at \$29 billion. It is now expected to be nearly \$40 billion.

Real-term boost

Defense spending has the biggest potential for increasing the deficit. The 1981 budget is largely pre-Afghanistan. The President proposes to boost defense outlays by 3.3 percent and spending authority by 5.4 percent in real terms. That would make the defense budget about 5.5 percent of the gross national product, which compares with nine percent during the Vietnam war and ten percent during the 1950s.

Some congressmen are calling for a bigger defense effort. When Defense Secretary Harold Brown presented his annual military assessment to the House Armed Services Committee, he painted a bleak picture of U.S. readiness for war. "We have economized—some would say skimped—on the nuts and bolts needed to sustain a non-nuclear conflict..." he said.

If things are that bad, committee members wondered, why isn't the administration asking for a bigger increase? "If Defense hasn't got the money, we're going to put it in," says Rep. Bob Wilson (R-Calif.). Rep. Thom-



as J. Downey (D.-N.Y.) predicts a 30 percent increase.

Earlier, Senate Majority Leader Robert Byrd (D.-W.Va.) and House Budget Committee Chairman Robert N. Giacomini (D.-Conn.) predicted defense increases. "We're going to have guns," says Rep. Giacomini. "The question is whether there will be support for both guns and butter."

The official \$15 billion increase in defense outlays—to \$142.7 billion—could double or triple, with a corresponding impact on the deficit.

Even without substantial hikes in

defense spending, the Carter deficit estimate is probably low by \$5 billion or \$10 billion because of doubtful assumptions about future congressional action. For example, the budget anticipates saving \$1.7 billion on military pay, \$1 billion on civil service pay, and \$780 million on federal medical outlays. These savings depend on passage of two administration bills that are not expected to go anywhere next year. Consequently, the deficit may be underestimated by as much as \$30 billion, without even considering the accuracy of revenue projections.

Fashion 1981 Budget

In his State of the Union message, the President said that when tax reductions become timely, they should provide "incentives to increase investment, improve productivity, expand capacity, and adjust to higher energy prices."

No increases or cuts

However, he didn't propose any cuts for 1981 because "as long as double-digit inflation continues and there is no sign of a recession, our top budgetary priority must be reduction of the deficit."

President Carter did not propose any major legislated tax increases either, other than those already proposed or scheduled such as the 1981 rise in the social security tax rate from 6.13 percent to 6.65 percent.

"The budget benefits greatly from two tax increases. One of them is the so-called windfall profits tax on the oil industry, which is expected to add \$13.9 billion to revenues in fiscal 1981. The other stems from the increase in revenues that occurs as inflation pushes taxpayers into higher brackets. The effects of inflation will probably increase revenues by about \$25 billion.

Without these two tax increases, the deficit would be \$39 billion larger.

Little hope of passage

The President also renewed earlier proposals for:

- Ten percent withholding for services received from independent contractors.
- Employers' payment of social security taxes on employees' tip income now subject to employee social security taxes.
- A speedup in the collection of income taxes owed by individuals and large corporations.

Congressional observers say these proposals have very little chance of passage. Without them and several other minor tax increase proposals of doubtful prospect, revenues would be about \$7 billion less than projected in the budget.

In 1976, candidate Jimmy Carter blamed the six percent inflation rate,

which he called terrible and unacceptable, on the mismanagement of the Ford administration.

Entering the fourth year of his term, President Carter now concludes that inflation "is the direct result of economic problems that have been building... for over a decade." He also says the rate has increased largely because of OPEC price increases. But the administration calculates that the oil price hikes added about three percentage points to the inflation rate. Even without the effects of OPEC policy, inflation in 1979 would have been above ten percent. A year ago, the administration's prediction for inflation in 1979 was 7.4 percent. The actual rate was 13.2 percent.

A differing view

The budget anticipates a 10.4 percent rise in the consumer price index for calendar 1980 and 8.6 percent the following year. This projection is discounted by Richard S. Landry, an economist at the Chamber of Commerce of the United States. "Inflation can only worsen with the big deficits—even larger in the current year than previously estimated and probably underestimated for next year."

Much of the expected growth in the deficit would come from increased defense spending, and defense spending is considered highly inflationary because it provides defense workers with more money to spend without increasing the supply of consumer goods to spend it on.

A key variable is the health of the economy. If the long-predicted recession actually arrives, inflationary pressures will be lessened. If the recession is mild or does not develop, they will be magnified.

Small business loans

The Small Business Administration's authority to guarantee bank loans to small businesses will rise to \$4.3 billion in fiscal 1981, up \$500 million over 1980. The agency will get an additional \$40 million for direct loans to minority-owned small businesses.

Funding for the minority enterprise

small business investment program is scheduled to grow from the current level of \$27 million to \$55 million.

The administration pledges strong efforts to target 30 percent of all federal prime contracts and 44 percent of subcontracts to small business.

SBA Administrator A. Vernon Weaver has announced that legislation will be sought to consolidate the agency's five business loan programs into one and to raise the limit on loan guarantees from the present \$500,000 each to \$750,000.

Environment steady

No major changes or initiatives are contemplated in the natural resources and environmental areas. Funding will continue at about the same levels as in fiscal 1980.

The Environmental Protection Agency will increase its emphasis on solid-waste management, with funding for these activities rising from \$83.7 million to \$125.5 million.

Outlays for the regulation of toxic chemicals will rise from \$79.2 million to \$90.2 million.

Agriculture cut back

Funding for agriculture is one of the bigger question marks in the Carter budget because of the ultimate effects of the Soviet grain embargo.

According to the budget, the Agriculture Department will spend \$20.1 billion in fiscal 1981, down from an estimated \$23.4 billion this year.

Much of the reduction, however, comes from postponing sales of the Farmers Home Administration's loan assets in fiscal 1980, so they can show up as income in 1981.

Conversely, the budget assumes that most of the cost of compensating farmers for the damage done by the grain embargo will fall in 1980. Only \$800 million is allocated for this purpose in fiscal 1981, compared to \$2 billion this year.

The budget assumes that Russia will buy the eight million metric tons of grain promised for 1981, a doubtful premise if relations worsen. It fails to provide for a program to discourage

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corn production, which some experts feel may be needed next year.

Finally, the department's budget is threatened by the rising costs of federal school lunch subsidies and food stamps. The two programs are close to running out of money now and may need more than the \$1 billion increase scheduled for next year.

For all of these reasons, the outlays for agriculture could go up or down by several billion dollars—most likely up.

Military research up

Scientific research and development is one of the few controllable categories in the budget slated for a substantial increase. Spending will rise 13 percent to \$36 billion.

Much of the total, which covers research activities by 31 federal agencies, will go to Pentagon weapons programs. There is \$6.4 billion in outlays for general science, space, and technology. The National Science Foundation and the Department of Energy are expected to spend \$1.6 billion of that, with the rest going to the National Aeronautics and Space Administration. The administration calculates the increase for basic research at 12 percent.

Energy funds boosted

Funding for energy programs is scheduled to rise 11.4 percent to \$14.7 billion. Of that figure, \$8.1 billion is in direct expenditures and \$6.6 billion is for energy-related tax credits.

Funds slated to promote conservation will rise to \$2.77 billion, a 70 percent increase over fiscal 1980. Spending and credits for renewable energy sources will go up 31.3 percent to \$1.47 billion. For synthetic fuel development, \$208 million is allocated for 1981.

Spending on energy programs related to nuclear fission will be down 12.5 percent to \$1.26 billion.

The budget contemplates a resumption of petroleum purchases for the strategic petroleum reserve, suggesting that the administration expects world oil supplies to be adequate, in the near future at least.

Human services growth

Most of the 13.2 percent increase in outlays by the Department of Health and Human Services is for automatic growth in entitlement programs such as social security and medicare.

Small increases are planned for alcoholism and mental health services, home health-care benefits, community

health centers, and the National Health Service Corps, which sends medical personnel to under-served areas. The budget assumes congressional approval of a \$403 million program to improve child health.

The new Education Department and the Labor Department are to administer jointly a new program to provide job training and remedial education to jobless youths. This program will raise federal job-training outlays from \$4 billion in fiscal 1980 to \$6 billion in fiscal 1983. However, only \$100 million of that planned increase is scheduled for fiscal 1981.

Increases for public transit

Transit programs are to get \$3.23 billion, a 17 percent rise. The proposed oil tax is supposed to fund most of the increase. Most of the money would be used to pay for new transit facilities and vehicles.

Amtrak would get a substantial increase in funds to buy new rail passenger cars and other equipment. No major increases are proposed to aid other railroad operations, including Conrail, the government-backed northeast line.

Spending on highways would rise four percent to \$7.86 billion. For airports and related facilities, \$920 million is allocated—a ten percent increase.

Wishful thinking?

The budget the President presents as restrained achieves that appearance through two massive tax increases and assumptions about revenues that may prove to be so much wishful thinking.

Congress will be debating this budget right up to the eve of the November elections. Pressures for tax cuts will be great. Congressional additions to administration requests account for much of the \$40 billion in red ink anticipated for fiscal 1980, and that budget was not adopted in an election year.

Put it all together and a deficit in the \$30 billion to \$50 billion range is conceivable, leading many experts to foresee an inflation rate for calendar 1980 even higher than the 13 percent of 1979.

Should the inflation rate increase, others would probably join presidential candidate Sen. Edward M. Kennedy (D-Mass.) in his call for wage and price controls. Congress, forced to increase defense spending and loath to raise taxes or cut social programs, might be tempted to go along. □

WE PUT A LOT INTO IT.

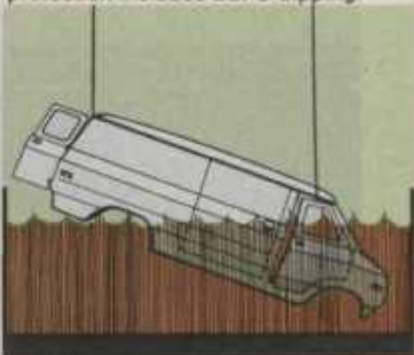
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Why Mercedes-Benz engineers wince when they hear the 450 SEL described as a luxury sedan.

The money you spend on the 450 SEL would be wasted if it were only a luxury car. You pay not for frills but for fine engineering—and the sublime driving confidence that results. Mercedes-Benz believes this is worth more than all the luxury on earth.

"The purchase of a 450 SEL," writes the Editor of *Car and Driver* magazine, "plugs you into a magnificent and apparently endless array of automotive thrills and delights."

Gimmicks, gadgets and luxury trappings were *not* what he had in mind.

"It has the performance, the roadholding, and the brakes to avoid accidents that too many cars simply blunder into," he concludes. "In the hands of a skillful driver, it can perform miracles of evasive maneuver."

The 450 SEL's thrills and

delights, in brief, flow from handling a precision driving machine. The 450 SEL's suspension system is a case in point.

The Editor of *Car and Driver* terms it "...independent in the purest sense of the word: not just because each wheel is allowed to trace the surface of the roadway independent of the others, but because all four wheels get their jobs done without subjecting you or your passengers to the sway and yaw that lead to motion sickness, or the hammering that wears you out."

Mercedes-Benz may hold an unfair advantage over the industry—having first used fully independent suspension on a production car in 1931.

Burrow down into the vitals of the 450 SEL and you will find numerous other signs of technical perfectionism. There are actually *seven* shock absorb-

ers. And six separate brakes. Door locks far exceeding Federal standards for strength.

For 1980, the 450 SEL has not been drastically lightened or downsized by as much as an inch. Yet it shows a 33.3 percent increase in fuel efficiency over 1979.

Its EPA estimate is 16 mpg, its highway estimate is 22 mpg. Compare this to other cars. Your mileage and range may differ depending on speed, weather and trip length. Your actual highway mileage and range will probably be less than the highway estimates.

The science of comfort

Life aboard the 450 SEL is as smooth and tranquil as in any sedan extant.

But this serenity arises from something deeper than a few pounds of soundproofing or a few yards of rich upholstery.



The car is scientifically devised to *prevent* discomfort—in everything from the noise you hear to the vibrations you feel to the air you breathe.

You are cradled in seats designed to minimize fatigue, for example, not overpadded for a superficially "luxurious" feel. Two sensors and an adjustable rheostat help the climate-control system maintain an even temperature, at the level you select—12 months a year.

"Grace under pressure"

The way the 450 SEL responds in a crisis is testimony to the Mercedes-Benz obsession with safety.

The Editor of *Car and Driver* points out, "there are more than a few American cars that can duplicate the skidpad and slalom numbers, the braking distances of the 450, and for a lot less money. But there's a catch.

The Mercedes-Benz does it comfortably, with aplomb. The phrase 'grace under pressure' could have been coined to describe a Mercedes extracting its occupants from some threatening situation on a rain-swept road in the middle of nowhere."

The 450 SEL is hardly an inexpensive car to buy. But owners can take satisfaction in the idea that it is unlikely to be an inexpensive car when it is sold or traded, either.

Consider the price, then consider that after three years, the 450 SEL has proven to retain 80 percent of its original price. No "luxury" sedan made in America can even come close.

And consider this: with every new Mercedes-Benz comes a dual commitment: to provide unparalleled engineering, and to provide unparalleled service—through the unstinting efforts of over 400 authorized

Mercedes-Benz dealers across the United States.

Mozart flowing

But the 450 SEL is ultimately something more than the sum of its facts and figures.

The Editor of *Car and Driver* ended his test by putting that something more in words.

"I sincerely wish," he wrote, "that everyone I love, anywhere in the world, could savor the experience of rushing down a country road in the middle of the night with Mozart flowing out of the speakers, and the three-pointed star, silhouetted against the headlights' path, leading the way. What a gift!"



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The skyline of London, with its spires of Parliament and the tower of Big Ben, once symbolized the greatness of the British Empire. Today, Conservatives are trying to make Britain rise again.

Margaret Thatcher, Britain's first woman Prime Minister, is beginning to feel at home at 10 Downing Street, historical residence of the Premier.

Making Britain Great Again

By Sterling G. Slappey

Once, the sun never set
on the British Empire.
Today, Margaret Thatcher
is trying to create
an economic sunrise

That is what Mrs. Thatcher and the Conservative Party want, and that is what they promised the voters in May, 1979.

Back then, it was obvious that the British were fed up with tired old Labor Party practices that seemed to lead nowhere except to more strikes and strife. People bitterly recalled last winter when 1.5 million workers, including hospital aides, gravediggers, and the men who scatter sand on icy roads, took part in scores of strikes and walk-outs.

Labor's rule over five years resulted in runaway inflation and a pound that couldn't hold its own against foreign currencies. The situation became so desperate that the International Monetary Fund stepped in to rescue the beleaguered pound and prevent massive defaults on loans.

For the second time in a decade, the winds of change put a Conservative

government into power, this time with a 43-seat majority in the House of Commons and the country's first woman Prime Minister.

Mrs. Thatcher, now 54, grew up in the small town of Grantham, 100 miles north of London. Her girlhood home—a small coldwater flat with an outside toilet—was atop her father's greengrocery shop. She was then Margaret Hilda Roberts. As a teenager, she won a scholarship to Oxford University where she studied chemistry, read scores of religious books (her family was Methodist), and debated for the Oxford Conservative Association. After graduating, she worked in a plastics factory for three years.

Mother of twins

The call of the hustings captivated her, but she lost her first two campaigns for a seat in the House of Commons. She then spent eight years as the mother of twins and the suburban wife of Denis Thatcher, a wealthy paint manufacturer. She studied the law and became a tax expert, but decided to try politics again.

Her hero then as now was Sir Winston Churchill, and she won a seat in Parliament beside him in 1959. In 1970, she became Education Minister in the Conservative government of Ed-

THE LAND of Hope and Glory that once was Great Britain may be enjoying a revolutionary comeback under the persistent leadership of Prime Minister Margaret Thatcher.

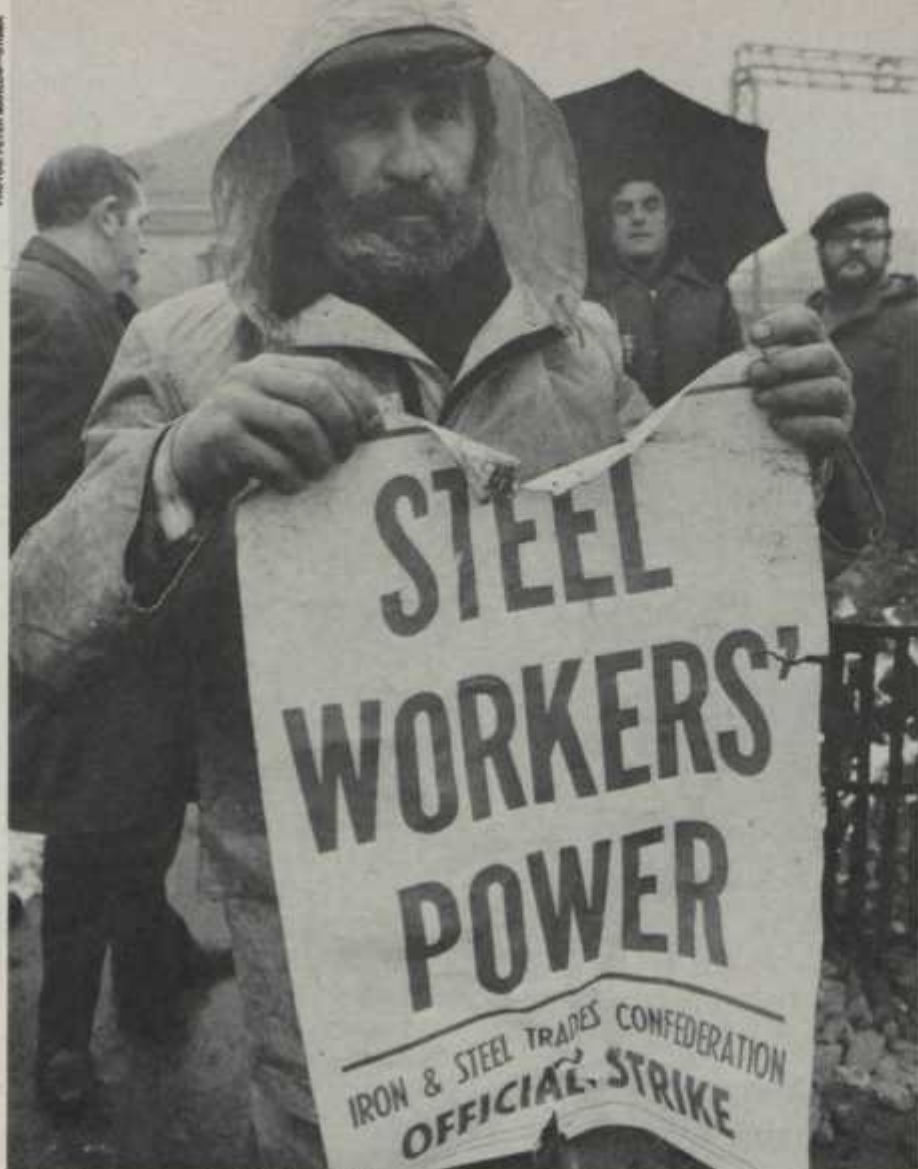
"We're in the process of getting government off the people's backs, away from their pocketbooks, and out of their hair," says John Nott, Secretary of State for Trade in the ten-month-old Conservative government.

"Union reactions to the new government's policies haven't been as strong as expected," says Peter Riddell, an economics writer for the *Financial Times*.

"The attitude of the lads on the shop floor has improved. Less squabbling, more work," two assembly-line workers and a stores keeper agree at the Raleigh bicycle works in Nottingham.

Promise of a free economy

Considering its historic troubles with a socialistic economy and a divisive labor force, Britain is probably in the early stages of profound changes in political, diplomatic, economic, and sociological directions. These changes, if permitted to mature over the next decade, will reverse the previous government's pervasive control of industry and steer the nation toward a free market economy.



Britain's ongoing steel strike, which spread to most of the private plants in the country, symbolizes the government's determination to remain aloof from the union-management fight over higher wages and better job security.

ward Heath. When Labor returned to power in 1974, Mrs. Thatcher challenged Mr. Heath for the party leadership and won.

The Prime Minister believes more firmly in private enterprise than all but a few American politicians and is probably the toughest and most resolute person in Britain today. She will tell you outright: "I like being Prime Minister. I want to keep the job for a long time."

Her Labor Party opponents call her Attila the Hen, and Soviet Premier Leonid Brezhnev has nicknamed her the Iron Lady, a title she likes. There are those in Britain who call her much, much worse. Her sense of humor is certainly not pronounced, and her popularity, even in her own party, is muted. But she is respected and admired for her imagination and courage in facing up to bad situations, making changes, and sticking to her decisions.

She is afraid of no one, as far as can be determined. In debates in Commons, she wields a verbal paring knife rather than a meat cleaver.

Like Sir Winston, she has a fondness for one-word answers to questions from the Labor opposition or from her own Conservative members. When a nagging or pointless question is asked, Mrs. Thatcher will rise quickly from her bench, stand very straight, and reply succinctly and somewhat shrilly: "No." "Yes." "I would think not."

Recently the leftwing socialist, Michael Foot, asked a question Mrs. Thatcher considered foolish. Her answer: "If the opposition can't think of a better question than that, they should not waste Prime Minister's time." Mr. Foot never got a proper answer.

Strikes and labor controversies this winter have actually been fewer and less troublesome than in many previous years. This situation has been re-



While trying to extract the government from industry, Mrs. Thatcher still visits construction sites and factories.

flected in the lowered tone and fewer number of attacks on Mrs. Thatcher and her ministers in Parliament by Laborites.

One former Labor minister told *NATION'S BUSINESS* privately: "There are quite a few people in the House who won't attack the lady because they are a little afraid of her and that some of her policies might work out well."

Realistic attitude

The Prime Minister says she inherited such "a huge economic mess" that ten years will be needed for the clean-up. She never entertains a thought that Britain may fall short in its attempted comeback. She rarely fails to tout Britain's potential in speeches, and she consistently insists that the first signs of recovery are appearing even as she warns that rapid improvement is still several months away.

Mrs. Thatcher is realistic about Britain's problems, which include an inflation rate that plays tag with 20 percent; unemployment bobbing and weaving around six percent; productivity that remains pitifully low; a lingering preoccupation with strikes and walkouts; still high income taxes despite an across-the-board reduction; insufficient facilities and resources for research and development; remnants of a class system that still stifles progress; outdated management and production practices; and the solidly united opposition of most, if not all, the unions.

British unions are here to stay, and the Prime Minister knows this. Her aim, which is purely conservative, is to keep the government out of union-

management affairs. At the same time she would like to curb union power to disrupt production, trading on the accepted fact that the British people are generally disgusted with strikes and union agitation.

Just as the Conservatives accept unionism as permanent, they also realize that the British welfare state, in one form or another, is too embedded to be dismantled. Instead, they are out to diminish and reshape it. Actually, the Conservative notion of a proper amount of welfare is more than the average Democratic congressman would want for the United States.

Mrs. Thatcher looks on the British government as something of a Good Samaritan, but she says: "No one would have remembered the Good Samaritan if he had not had money as well as good intentions."

Controls abolished

With this thought in mind, she is trying to revive the economy and rebuild the treasury.

"Early on, we abolished export, price, pay, and dividend controls," John Nott told NATION'S BUSINESS in his office a short stroll from Parliament. "Income taxes were reduced an average of 15 percent from top to bottom. To make up the revenues, we almost doubled the value-added tax to 15 percent."

"We are in the midst just now of reducing government paperwork that is required of ourselves and business," Mr. Nott added. "In my own ministry I'm having in a management firm to see what we can throw out in the way of questionnaires and other form requirements."

"I and several others are looking into abolishing income taxes altogether. This effort may be a few years ahead of its time, but we are thinking of it. One reason is that we don't do as good a job collecting income taxes as we should. We are just not as efficient as U. S. tax collectors. Sometimes I feel we spend more money collecting our taxes than we keep in the till."

High interest rates

The Thatcher government has forced a rigid monetarist system on the economy in an attempt to reduce inflation by six or seven percent by the end of 1980. An 11 percent ceiling has been placed on growth in the money supply; the principal lending rate is 17 percent; mortgage money costs 15 percent; and personal bank loans run as high as 20 percent interest.

Such monetary restrictions are slowing British business and discouraging new business. But Mrs. Thatcher is holding to her course, which bothers experienced money men such as Denis Healey, Chancellor of the Exchequer in the last Labor government.

"The Prime Minister is too inflexible. She is making money too hard to find for business investments, and she won't let up. This is a bad winter," he says.

Public spending is being reduced painfully, and the number of government workers is down, although nei-

ther by as much as Mrs. Thatcher promised during last year's election campaign.

Considering the size of the British bureaucracy, personnel cuts of 40,000 are not large, as Thatcher stalwarts such as Sir Keith Joseph, Secretary of State for Industry, acknowledge. More personnel and spending cuts are promised.

On the few occasions when Mrs. Thatcher showed an inclination to trim her programs, she has been accused of making a U-turn by Laborites. One recent example: The Thatcher

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NB-3/80



Denis Healey, former Chancellor of the Exchequer, believes that Mrs. Thatcher is making money too difficult to obtain.



Sir Keith Joseph, Industry minister, has a pet project—he wants to denationalize the telephone and postal services.



John Nott, trade minister, is thinking about abolishing income taxes. "We are just not efficient collectors," he says.

government promised to sell off large blocks of its shares in the British National Oil Corp., which is involved in oil exploration in the North Sea. The British pound has strengthened in recent months to such an extent that takings from North Sea oil are higher than expected and getting higher by the month. But delay in selling the stock brought on the familiar U-turn

cries, although it is generally accepted that the stock will be sold eventually.

Also, the Conservatives are planning to sell all six million public housing units to tenants at discounts of up to 50 percent from market prices. This move is vigorously opposed by Laborites because, they claim, it would help the more prosperous tenants at the expense of the poor.

Meanwhile, the government is pushing on with its promises to sell large blocks of government shares in British Petroleum, British Airways, British Aerospace, and probably several other firms. The Thatcher government is also diminishing its support for money-losing companies such as British Leyland, the automakers, and British Steel. A plan to provide small investors with a tax credit for buying shares in British firms is being studied.

And the government exchequer—treasury—will reap a one-time windfall if Mrs. Thatcher is successful in persuading the European Economic Community to slash Britain's annual \$2 million dues by several hundred thousand dollars.

The pace of change has been so torrid in the past few months that Mr. Nott now says: "We need a breathing spell. We need to see how all of this has been going. We need to set no time limits for anything for a while."

Sir Keith looks back on the past ten months with pride because much of the activity grew out of his planning. He looks forward to a pet project for his ministry—demonopolizing the nationalized telephone and postal services.

Shoddy service

For users of the systems, this is good news. During the past 15 years, British postal and telephone services have dropped from superb to among the poorest in Europe. Equipment is old and inadequate, service is shoddy, and workers are often unfriendly.

Sir Keith, who is often called Mrs.

Bike Factory Picks Up Speed

The past few years at the Raleigh bike factory in Nottingham have seen a slowdown in exports to the American and African markets, a credit squeeze abroad that cut sales, a stronger pound sterling that pushed up foreign prices, sky high inflation, and sporadic labor strife including one strike.

The past few months have seen some signs of change.

Productivity is now increasing again, and a more spirited sales campaign has shifted emphasis to the home, European and Far Eastern markets.

Kenneth Collins, sales and marketing director, says that in 1969 Americans bought 850,000 deluxe Raleigh bikes, but that sales since then had steadily dropped. "The bike craze hit Americans hard, but I've an idea that many Americans bought an expensive bike, rode it a few dozen times, then hung it up in the garage," he says.

Ian Philipps, Raleigh chairman and managing director, says employees are now "getting something out of our company improvements, and so is the company. Our relations with the 13 unions at Raleigh are greatly improved. In fact, they have been good in recent months."

The company recently ran a seven-session training course on various phases and problems of management.

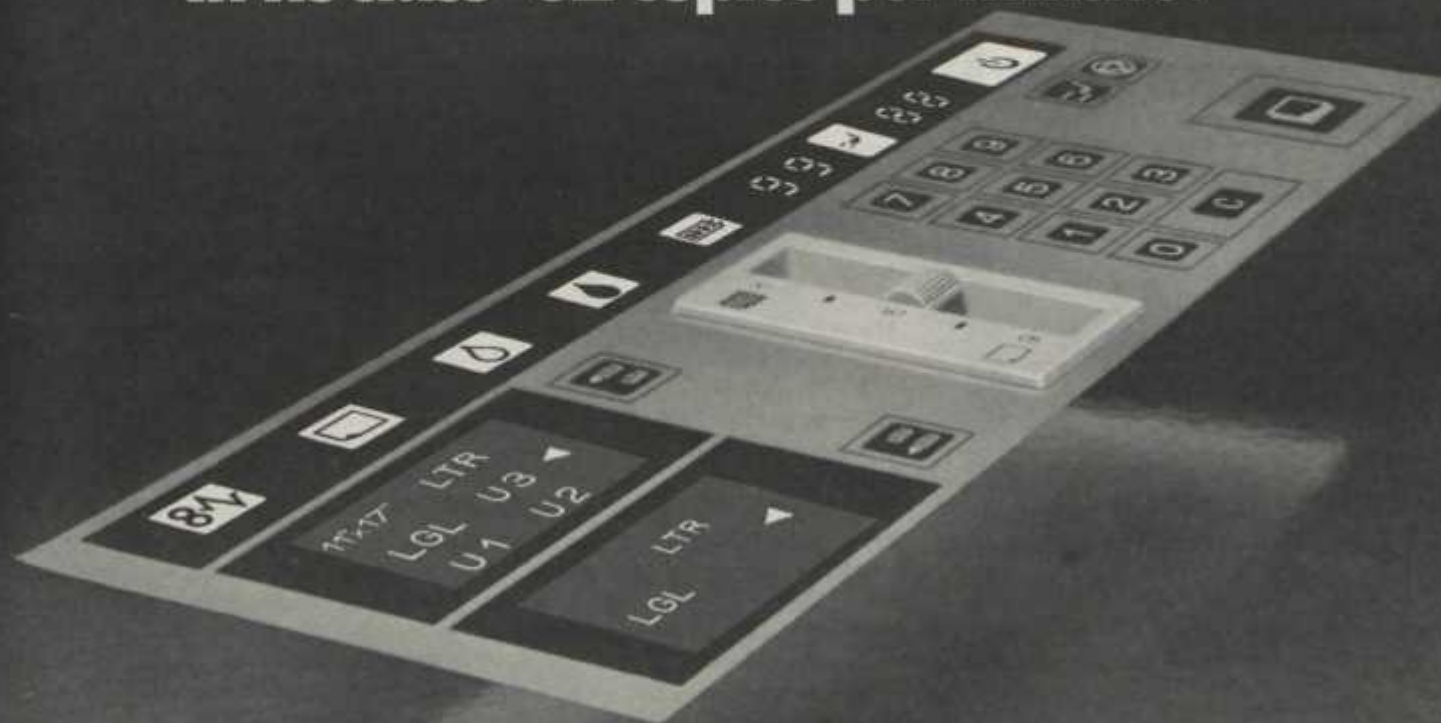
"We brought in 20 union members and 20 members from management. The course was a great success with each side learning that the other side had no horns," says Mr. Philipps.

The course was credited with promoting industrial peace at the 7,000-employee plant, the world's largest, where two million bikes a year are made.

Says Mr. Collins: "We're optimistic. We believe we are on the right path."

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Thatcher's guru, says: "Affairs have gone better than we expected. We are pleased. There are now, have been, and will be many pressures on us to change our plans. We will hold our course."

"Because of our monetary plans and other projects, we expect real improvements in inflation late this year and even more by late 1981. Last year we did underestimate inflation," he says.

"We expect 1982 to be a key year for growth and lower inflation. I recall that in 1977 the Labor government had gotten some real improvements in the economy and in inflation."

"But Labor didn't maintain momentum and went back to excessive public spending. The British economy slipped badly."

"We must keep up the momentum, and that is why we must have a second term in office. We cannot get done all that needs getting done in one five-year period."

Secret admiration

Writer Peter Riddell agrees that 1982 will be the key year during the first Thatcher government. "Certainly no one can forecast if Mrs. Thatcher will have a second term," he says. "But as of now there is some secret admiration for the Prime Minister among her political opponents."

"Many labor settlements so far have been more moderate than expected. In several cases union members voted to go along with government wishes regarding pay rather than strike for still more pay."

"Actually however, not many people in Britain have gotten more money in their pockets as a result of the Thatcher program," he says.

In opposition, the Labor Party has been spavined by divisiveness and splinter groups. The party is divided between its extreme left wing, championed by Anthony Wedgwood Benn, and the moderate wing, championed by former Prime Minister James Callaghan and Chancellor Healey.

Extreme left

There are several smaller groups on the extreme left as well as a large group—no one seems to know just how large—of Trotskyites. A few months ago, secret papers and plans outlining how the Trotskyites would take over the Labor Party within the next few years came to light.

Despite the infighting, Laborites and union leaders are mustering as much opposition as they can against the government's 43-seat majority.

Bill Callaghan, who heads the economics department of the Trades Union Congress—roughly equivalent to the AFL-CIO—says one of the greatest worries of unionists is an employment bill currently before Parliament that would hold unions legally responsible for damages and breaches of commercial contracts. It is expected to pass by late spring.

"That would be a disaster for the unions," he says.

The Thatcher government has made a fetish of remaining aloof from union-management squabbles. During the winter, a major strike in the steel industry went on and on because the government would not mediate and, in fact, held back from public recommendations or suggestions to the two sides. Several smaller strikes received the same hands-off treatment, and each time Mrs. Thatcher and Sir Keith were criticized.

While Mrs. Thatcher's domestic programs inspire controversy, her foreign policy, particularly in Zimbabwe-Rhodesia, has attracted much admiration. The British-imposed peace plan is expected to take hold and lead to elections this year to set up a biracial government.

The Thatcher program takes a hard line against the Soviet Union; beefs up the depleted British military, expanding the punch and power of the Royal Navy and Air Force; favors the installation of advanced American missiles in Britain; and agrees with President Carter's plans to boycott or move the summer Olympic games.

Drastic measures

As Mrs. Thatcher approaches her first anniversary at 10 Downing Street, most of the British people still accept her use of drastic measures to clean up the mess left by the Labor government.

Mrs. Thatcher knows that the brief Conservative government of Edward Heath in the early 1970s failed to turn the country around because that government was either not decisive or decisive at the wrong time and against the wrong people.

Neither the Labor nor the Conservative governments preceding Mrs. Thatcher's could face up to the reality of Britain's economic situation, and neither could stick with the few tough decisions that they did make. These weaknesses wrecked both Labor and Conservative governments.

Such weakness is one attribute that everyone agrees Mrs. Thatcher lacks. □



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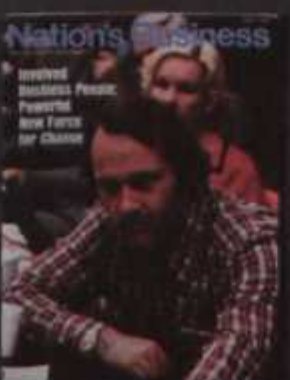
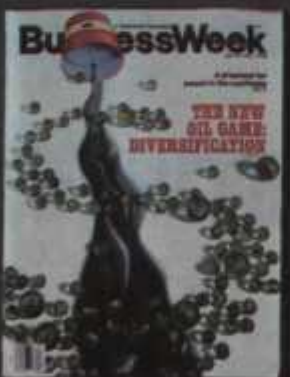
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At Poland Spring, Sparkling Waters Run Fast

How a quiet mineral spa
was recharged into
a bustling bubbling business

By Roberta Graham

THE commercial begins with the mellifluous voice of Mae West telling you that she has sipped Poland Spring bottled water for 20 years. Started when she was four, she says. But after the 30-second interlude with the perennial sex symbol, you realize that you've never heard of Poland Spring water.

Well, hold onto your bottle cappers, because the oldest of American bottled waters may be bubbling into your life. With the national thirst for sparkling bottled water reaching prodigious levels, Poland Spring is competing with the best of them on grocery shelves and bar tabs—Perrier, Vichy, Badoit, Evian, Appollinaris, Ferrarelle, and Saratoga.

Which is best is debated constantly among ardent water drinkers. And contrary to popular skepticism, there

is a difference in the taste of each bottled water, depending on mineral content. All waters originate in underground pools, and the amount of minerals each collects on its way to the surface results in a distinguishable taste.

In ancient times, philosophers believed that the gods called forth natural spring waters from subterranean pools when they wanted to lubricate their parched throats. Just how much these waters titillated the tastebuds of the gods was never recorded. But industry officials believe the chic now associated with drinking brand water will disappear. What will emerge, they say, is a realization that mineral water is good for you.

"I think the message is loud and clear," says Michael Schott, vice president and chief operating officer of Po-



The original spring, encased in platinum and located next to the bottling plant, quenched the thirst of early stagecoach travelers. The water was also credited with medicinal qualities.

land Spring Bottled Water Co., Poland Spring, Maine. "This water is a socially acceptable alternative to other drinks."

"There's no doubt that consumers want an alternative drink, not only to alcohol, but also to diet soda, light beer, and tap water."

Until recently, Perrier water has been that alternative. When Great Waters of France, Inc., New York, burst onto the national scene in 1975 with its effervescent Perrier water, the U. S. bottled water market was flowing peacefully along at \$180 million. In 1978, sales increased to \$224 million

for use in irons or for sterilizing contact lenses," Mr. Schott says. "It was undercapitalized and underadvertised."

The Poland water company is changing that. Mr. den Haene began by injecting carbon dioxide into the water to give it sparkle and repackaging the product. Now, an extensive \$2 million advertising campaign is aimed at whetting the consumer's appetite for a new, but historically American, bottled water.

Perrier labels itself the Chivas Regal of bottled waters and purposely projects an elitist image. "But a good

was a burgeoning stagecoach inn known throughout the East for its good food and deliciously refreshing water," she recounts. "Through a series of happenstances and family sicknesses, the water was used to break fevers and ease liver problems. Soon it became famous for its ability to cure almost any ailment."

Hiram Riccar, the great-grandson of the spring's founder, himself was sustained by the medicinal qualities of the water. According to one of Mrs. Feldman's oldest journals:

"He (Hiram Riccar) was so despondent that he ... lay in the meadow [near the main house] for eight days. The only thing that sustained his life was the water from the spring. On the eighth day he returned to the house shaken, even thinner and paler, but with the heartiest appetite he had enjoyed in many years."

Clipper ship

The word spread from doctor to doctor, and "before long, physicians in Boston, New York, and Philadelphia were demanding that the water be sent to them for their patients. Wagon masters who had heard of the unusual qualities of Poland water and its ability to retain its freshness over long periods bought hundreds of barrels for their long westward treks. For the same reasons, hardly a clipper ship left New England ports without Poland water for its passengers and for sale abroad."

"Hiram Riccar knew a good business venture when he saw it," says Mrs. Feldman. "He capitalized on the water's medicinal reputation and built up the resort business as well."

In 1860, Hiram Riccar advertised in a Boston newspaper an offer of room and full board plus "all the Poland water you can drink" for \$2.50 a week. The cool summer days of Maine, the legend of Poland water, the oppressive city heat, and the insistent realities of war combined to attract thousands to Poland Spring. [The town—originally called Bakerstown—was renamed after Maine became a state in 1820.]

Company scrapbook

By the late 1800s, Mrs. Feldman estimates, kings and presidents were flocking to Poland Spring to enjoy the opulence of the mineral spa.

Diplomats had the water delivered to posts as distant as Cairo, and President Franklin D. Roosevelt introduced its charms to Prime Minister Winston Churchill in London. The company



PHOTO: ROBERTA L. GRAHAM

"Poland Spring was like no other resort in the world," says Tudi Feldman. One room in the Feldmans' home, located on the original Poland Spring estate, has dozens of pictures of prestigious patrons and faithful consumers of Poland water.

and are expected to double within five years.

Mr. Schott credits Perrier with heightening consumer awareness. "But one product does not a market make," he says. "Now there is Poland water."

Mineral water

Actually, Poland water has been marketed for 135 years, but until three years ago it was sold strictly as a mineral water. When Belgian-born Paul den Haene purchased the Maine water company from Perrier in 1977, the water was sold only in half-gallon plastic jugs nestled next to the distilled waters on supermarket shelves.

"Most people thought the water was

number of people cannot identify with that," says Mr. Schott.

"Poland water is more akin to Jack Daniels. ... We're the north country cousin ... the small-town, backwoods bottlers of spring water for more than 200 years."

Poland Spring's water is really aristocracy gone back to nature. Such notables as Franklin D. Roosevelt, Winston Churchill, Howard Hughes, and John F. Kennedy have drunk water from the once-rural stagecoach stop, just 30 miles northwest of Portland, which became one of the most palatial resorts in the world.

Unofficial company historian Tudi Feldman tells of the early days:

"In its primal stage, Poland Spring

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Sales of Poland Spring's water have skyrocketed since the infusion of \$3.1 million by owner Paul den Haene.

scrapbook shows white-gloved, elaborately gowned ladies and gentlemen buttoned into Edwardian tailcoats, being served Poland water from silver pitchers. One room of the Feldmans' Victorian-style home on the original estate of Hiram Riccar contains pictures of the rich and famous, the powerful and profound whose elegance graced Poland Spring.

No landing for Lindy

One of those pictures is of an airplane gliding over the golf course at Poland Spring. It is autographed by Charles Lindbergh, and it notes his disappointment at not being able to land the *Spirit of St. Louis* there. According to Mrs. Feldman, an ardent golfer refused to leave the course and allow Lindy room to land. That golfer was John D. Rockefeller.

The charms of the resort began to wane, however, as successive family owners lost interest, and with the resort's deterioration went the popularity of the mineral water.

In 1962, Mrs. Feldman's father-in-law, Bostonian investor Saul Feldman, purchased the estate and spring from

the Riccar family, and in 1973 he sold the spring to a relatively unknown French company already marketing a bottled water called Perrier in the United States.

The Poland Spring-Perrier marriage was a short one. By 1976, Perrier's interest in marketing a second bottled water fizzled as the popularity of its French water grew—700,000 cases were marketed in 1975-76. One year later, Perrier sold Poland Spring to Mr. den Haene for an estimated \$350,000.

Hydrogeological criteria

"In hindsight," says Bruce Nevins, president of Great Waters of France, "it would have been better not to sell Poland Spring. At the time, we considered its location and proximity to major markets to be less than desirable and its hydrogeological criteria to be inadequate."

In 1977, it was doubtful whether the water-drinking fad would last. But Mr. den Haene gambled on the changing times and the spring's potential. Despite Perrier's assessment, a report from a Portland engineering firm showed that the spring could produce up to 20 million cases of bottled water annually, if existing operations were expanded and other spring feeders were tapped.

Public demand warranted the investment, Mr. den Haene thought. With an infusion of \$3.1 million, the new owner took the water out of the one-gallon plastic jugs, put it into a glass bottle with a green and yellow label, and injected the sparkle. Mr. den Haene also acquired 450 acres surrounding the spring to tap additional sources and built a \$1.8 million bottling plant capable of tripling production.

These innovations have taken Poland water from Maine to the California coast where it is closing fast on Perrier. Poland Spring has increased shipping from 46,000 cases annually to one million cases last year.

Goal of two million cases

Sales have grown from \$250,000 in 1977 to about \$6 million this fiscal year, and the company plans to ship two million cases to supermarkets and distributors in 1980.

"Perrier just wasn't prepared to put a lot of money into beefing up the spring and its operations," says Mr. Schott.

Along with its aggressive advertising campaign and projected sales of

five million cases annually by 1982, the company boasts that more than 240 million glasses of Poland water will be poured in as many as 85 million American homes and restaurants within two years.

That's a supercharged goal, but competing with other established and popular bottled waters such as Saratoga and Perrier may force the company to relinquish some equity to raise capital. Going public or being acquired by a compatible parent are possibilities, Mr. Schott admits. "If the cash flow needs a boost, that may be what we will have to do."

Mr. Schott grins wryly at the mention of his competitors' names. "Perrier has a better than 70 percent share of the natural water market," he says. "It's French, well established in most parts of the country, and generally popular."

"But we're out to be number one, and that means investing heavily in our product."

Rich heritage

Ernest Bilodeau, who has been the spring's plant manager throughout the ownership changes, says the place has been transformed since the Den Haene takeover. "There is a lot more care and feeling about the product now—and a true respect for its rich heritage," he says.

A prudent New Englander, Mr. Bilodeau has high standards for his product. He keeps his office refrigerator stacked with competing brands of bottled waters for taste-testing, he says.

"I've been drinking Poland water all my life. Not only is it better than tap water, but it's truly the best of all the bottled waters."

Lunchtime in New York

In downtown Manhattan where Poland Spring has its sales and marketing office, New Yorkers take lunchtime cover on an Indian summer day beneath Perrier cafe umbrellas outside a Fifth Avenue restaurant. The canopied advertisement blatantly suggests that Perrier-and-lime would serve as the perfect thirst-quencher.

Also on the menu of this swanky restaurant is the name of another sparkling water. The waiter graciously takes an order for a Poland water-and-lime. He double-checks. "That was a Poland water-and-lime, not Perrier, correct, madame?" he asks. □



To order reprints of this article, see page 54.

How a Nice Can Company Can Finish First

Frank W. Considine is:

1. A believer in people
2. A stickler for detail
3. A superior salesman

By Priscilla Anne Schwab

FRANK W. CONSIDINE is a quintessential nice guy who doesn't like to see people unhappy, especially at work. That is why as president and chief executive officer of the National Can Corp., he puts people before profits.

Not that profits don't matter—the company has just posted its most profitable year ever—but the managerial equation is tilted toward people. That plus technological innovation and reverse diversification multiplied sales to \$1.4 billion last year and made the third-ranking can company a good place to work.

"It's my personal belief that people should take pride in what they are doing, even if it is sweeping floors," says Mr. Considine. "If you give people pride in their jobs, you are really giving them something better than wages. You are giving them status, recognition, and satisfaction."

Family affair

People orientation pervades the company's no-frills headquarters in Chicago and its 80 manufacturing plants here and abroad.

Example: When National opened its latest plant in Oklahoma City, Okla., there were 2,000 applications for the 100 job openings. The dedication was a family affair, with a picnic and a performance by the Up With People group. Eight months later, the most up-to-date computer system in the can-making industry has pushed production far past expectations, and the employee turnover rate is still near zero.

Example: When National dedicated a plant at Phoenix, Ariz., it staged an open-air circus for its customers, employees, and their families. Just before the show, the plant's 94 workers beat their daily output goal of one million cans. Today, three years later, the Phoenix plant is producing almost two million cans a day.

Example: National was one of the pioneers in setting up a cardiopulmonary resuscitation program, which has trained more than 600 strategically placed employees to respond to heart attack emergencies. Two lives have been saved so far.

Mr. Considine had his own heart attack in 1978, but even before that he



had promulgated the idea of CPR training.

"The four to six minutes that follow a heart attack are crucial to the victim, a matter of surviving to lead a normal life or being permanently disabled or dead," says Mr. Considine, whose attack was mild and who returned to work two months later. "It's essential that trained people be on hand."

People motivation aside, can-making has little mystique. All cans are either two-piece or three-piece, aluminum or steel, with a few maverick alloys for asparagus and fruit juices. Unlike men's suits, two-piece cans are the vogue in the beverage industry.

Frank Considine saw this trend back in 1967.

"I was vice president for sales, and I knew that the soft drink industry was switching to cans," says Mr. Considine, who joined National in 1961 as general sales manager, after 14 years in the glass-bottle industry. "The beer companies were building their own plants to make cans instead of bottles. It was obvious the wave of the future was the two-piece can."

However, it took a few years for that wave to gain momentum, and National was ankle-deep in engineering problems.

"The company has a reputation for process refinements," says Mr. Considine, "but we were severely tested in trying to produce light-gauge aluminum cans at high speeds. The biggest challenge was the die-stamping equipment: Three-piece cans are rolled out, while two-piece cans are punched out through a series of dies."

On the frontier

Despite setbacks and cost overruns, National gained a two-year head start over the rest of the industry and has never looked back. By 1974, National had more two-piece capacity than any competitor. Today, Oklahoma City is the leader in can-making technology.

The machine that punches the initial cup shape from the aluminum talks to the machines that push the dies through the cups to make the cylinders. And they both communicate with the machine that coats the inside





Mr. Considine, who learned to sell on straight commission, consults with senior vice presidents Roland Meyer (center), operations, and Lou Umsted (right), sales, at the firm's elegant but austere Chicago headquarters.

PHOTO: DAVID W. HAMILTON



with one precisely placed squirt of a protective compound.

One machine will stop or slow another when there is a problem, and the machine that is down will light up and tell the computer room technician why.

"The technology is so futuristic, it is almost frightening," says Mr. Considine. "One monitoring machine has ten sets of eyes. It's a little eerie."

"The Apache computer system is designed to help people do their jobs better," says Neil Chernikoff, vice president-engineering. "It is not going to replace people. In fact, we might even add one or two people. The computer buys you better quality control, more efficient production, and totally accurate record-keeping."

Entertainment scene

Along with a lack of mystique, the can business does not exude much glamour, at least compared with the world of show business, in which Mr. Considine had at one time a potential starring role. After graduating from Loyola University with a degree in philosophy and serving aboard a Navy destroyer as a lieutenant, Mr. Considine returned to his hometown of Chicago and joined the Frank J. Hogan talent agency.

Frank and Nancy Considine have nine children and two grandchildren. "I married a saint," says Mr. Considine.

"I had been booking nightclub acts, musicians, and singing groups all through high school and college," says Mr. Considine. "I really enjoyed the entertainment scene, but my parents were after me to lead a more normal life. I was working all hours of the day and night—that's the nature of the business."

"Besides, I was about to be engaged, and show business is a rather insecure way to make a living. So I went to work for the president of a small bottle-making company and began learning the business from the bottom up," says Mr. Considine, a third cousin of the late sports columnist, Bob Considine.

Notches on the bottom

After all those years in bottle-making, Mr. Considine's fingers still stray to the bottom of a bottle. "If you see somebody feel the bottom of a bottle, you know he has been in the glass business," says Mr. Considine. "You can tell what firm made the bottle by the notches on the bottom."

Those in the can business look for the distinguishing mark of the can-maker on the side of the can. National's mark looks like the top half of a diamond with a short tail.

Not all of Frank Considine's managerial concepts are new to National Can. His predecessor, Robert Stuart, now chairman of the board, reinforced the company tradition of plant visits begun by founder Robert Solinsky.

"I used to visit every plant and speak with every employee at least once a year," says Mr. Stuart. "I remember getting up in the middle of the night to go and talk to the people on the third shift."

System of dialogue

"It's difficult now that we are so large to talk to every employee singly, but I think our managers exemplify the marvelous system of dialogue among individuals at all levels in the company."

"I was very much of a disciplinarian when I started with the company," says Mr. Considine, who was trying to sell his own small bottle-making company to National Can. That was no sale, but Mr. Considine's talents as a salesman were proof positive of his ability, and he was signed on as general sales manager.

"We were a much smaller group then, but we were all pretty straight, family-oriented people. If too much drinking went on at a convention, the

salesmen heard about it right away. Today, Lou Umsted and Maurice Pigott head one of the finest sales organizations I've seen anywhere. I'm really proud of all of them."

Good morale and loyalty

How effective is National's management style and how does it differ from other companies that claim solid rapport with their employees?

"I think the company cares about its people and wants to keep them," says a plant supervisor. "National Can is no different than any other company; it has to be productive and profitable. But there are good morale here and solid loyalty to the company."

"A lot depends on the plant manager," the supervisor adds. "I have seen some good ones and some bad ones. National doesn't have many bad ones anymore, and the good ones know that the shop foremen can make or break a company."

"This is a big company," says Mr. Considine, "but we try to preserve the small company advantages."

"That includes the operating style of each manager on his own level. The more autonomy there is, the closer

er managers can get to their people, and the better the productivity will be. We capitalize on autonomy and minimize bureaucracy wherever possible."

Mr. Considine has embellished his hands-on management with a professional approach that eschews the written memos and chain-of-command reporting usually endemic to expansion. That directness operates from the factory floor to the boardroom.

"I have never let going through channels stand in the way of solving a problem," he says.

"If I have a problem, I want to talk to the person who can solve it, not just his boss. I pick up the phone and call the right person."

Cross-training

"It's not so much an open-door policy; it's more of an on-the-floor policy," says Roland H. Meyer, senior vice president-operations, who formerly worked for Continental Can. The policy is implemented through the cross-training of everyone from plant managers to hourly employees.

"When I joined National," says Mr. Meyer, "Frank told me: 'We want to

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grow through our people. I want us to be a people-oriented company.' That goal isn't totally altruistic because when you have people who are happy, you get better production. Union problems are unnecessary if you deal with people on a human basis."

Not soft or quiet

The people-first philosophy has not produced a workers' paradise because can-making, even the most modern can-making, is not a soft or quiet job.

But, says Jack Turner, vice president and general manager of the international division, "there is no way we could have grown in this division from \$28 million in sales in 1973 to \$270 million last year without the total commitment of all our people."

"You hear about the lack of spirit in England, but we had a great plant

startup there two years ago, and our British plants consistently turn in good performances."

When National Can was smaller, Mr. Considine used to point with pride to "our corporate jet fleet, the largest in the world—American, TWA, United..."

Today, because of burgeoning growth—the company has doubled its sales and its plant capacity since 1973—the corporate fleet consists of one six-seater jet.

"I was finally convinced that the company's size and the amount of travel its managers did, especially to out-of-way places, made a company plane practical," says Mr. Considine, who hates to be away from home overnight and usually isn't. "I needed a lot of persuading."

Flying from Oklahoma City to New

York for a meeting of the Egypt-U.S. Trade Council of which he is chairman, Mr. Considine relaxed for a few hours and talked with a NATION'S BUSINESS editor about managing National Can and motivating people. However, he kept a pile of paperwork in his lap just in case the conversation should flag.

How can National, which has 11 percent of the market, compete with American and Continental, which have about 60 percent of the business between them?

We have a sales base hard to match. Plus, we now have a technological edge. We have built on the customers that have been with National from the beginning, when Robert Solinsky was still making sales calls. Some of our customers have remained with us be-

THE CHAIRMAN'S NEW JOB

If division of labor is the fulcrum of American industry, delegation of duties is the pivot of American management. But this delegation is often nonexistent at companies where the top executives try to do it all.

That's not the case at the National Can Corp. Robert Stuart, who preceded Frank W. Considine as president and chief executive officer, has created a new role for the chairman of the board.

"The problem is that one man cannot be all things to all people," says Mr. Stuart, who became chairman in 1973. "A tremendous burden of civic, social, and charitable activities is part of the business executive's job. But these responsibilities always need more time than the executive can give."

"As chairman, I have time to beef up the company's contribution to public service."

For example, Mr. Stuart and other Chicago businessmen helped to found the National Minority Purchasing Council, a federal effort to promote small minority enterprises.

"The federal government asked for our help after discovering that the real needs of minority businesses were not capital or contract subsidies but expertise and, above all else, sales volume," says Mr. Stuart, who was the council's first president.

"Working with the government, we



Formerly president and chief executive officer of National Can, Robert Stuart focuses on corporate responsibility.

enlisted the interest of about 1,000 qualified minority businesses that could supply products and services to the government and private companies.

"Because I was free of the day-to-day running of National, I could tour the country and talk with business people about the council and the opportunities offered by minority businesses. The council is now active in about 35 metropolitan areas."

Another activity that Mr. Stuart finds a great deal of time for is ex-

plaining the interaction of American business and American freedom.

"I think the primary reason for business's poor public image is the apathy of the people who could tell the business story but don't," says Mr. Stuart.

"There is no point in business people talking to business people and bemoaning the fact that neither the government nor the public understands. My message is that business people have to tell what they know to the public."

"You don't have to be an economist or the head of a big company to do that. You don't have to have all the answers. But you do have to explain."

Mr. Stuart promotes that message through the National Schools Committee for Economic Education, of which he is a trustee; The Conference Board, of which he is a member; Rotary International, of which he is district governor; and the Chamber of Commerce of the United States, of which he is a director.

In addition, he works with two dozen or so educational and charitable associations, foundations, and advisory committees.

"These kinds of activities are a full-time job," says Mr. Stuart, "and absolutely necessary if business and the private enterprise system are to survive."

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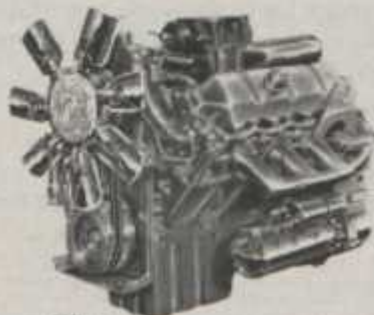
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cause of the special service they received decades ago.

In addition, we signed long-term contracts with beer-makers to produce their cans in our existing plants while our competitors were thinking about building captive plants. We competed on total price, and the beer-makers had no capital costs to worry about.

Is it true that you have never said a derogatory word about your competitors?

It's a mistake to criticize a competitor and a waste of time. I believe that saying about another man's shoes. American and Continental are good companies. They run their businesses the way they think is right. We might not agree with their marketing strategy or some of their actions, but that is no reason to snipe at them.

You are opening plants despite the threat of a recession which has produced some softening of demand. Isn't this the time to retrench?

Over the past few years, we've gone back to the business we know best—packaging. We sold off our pet foods division and a food-packing division, and we are now concentrating on cans, caps and lids, and glass and plastic bottles. We opened our plant in Oklahoma City because we had been shipping cans in there for two years or more. So immediately we started saving substantial freight charges.

We are phasing out the three-piece can in Bishopville, S. C., while building a new two-piece can plant down the road because the soft-drink bottler there is expanding. We will use the old space for warehousing.

We have been planning our expansion for several years. Demand may soften a bit, but we expect to have a good year.

Can you justify the expense of your people-oriented philosophy in terms of cost-benefit analysis?

Probably not. A poem has value, but it doesn't create wealth. It cannot be measured in dollars and cents. Our concern for our people doesn't cost that much, and the benefits accrue, however intangibly, in the form of personal loyalty and high morale. They inevitably increase productivity. You can weave human values into your business life every day in your dealings with people.

How do you let your management employees know you care?

It is just day-in-and-day-out consideration for the individual, that is all. I am probably as tough on people spending time on the job as anybody. But if a member of the family is seriously sick, the executive should go home. That is where he should be.

I am not good at that myself. We have nine children, and I have missed about an hour's work. All our children were born at night except one, and she made me an hour late for work. But I married a saint.

The people approach looks good on paper. How do you make it happen?

Preach it, teach it, and practice it. You really have to live it. People will realize and appreciate management's attitude only if all managers and supervisors are talking and playing the same game.

The other side of motivating people is to recognize their accomplishments. That sounds so simple, but all too often management concentrates on the trouble spots and neglects the well-run plants. Which all too soon, it seems, then develop troubles of their own.

How can you tell if a plant is in trouble, just from a flying visit?

Experience. For example, Roland Meyer can walk through any one of our plants and pluck potential problems out of the air. He can sense unhappy people. He has been in this business for 33 years.

Whenever I visit a plant, I sit down at a table and talk to the supervisors. They know I welcome the tender questions or the hot comments. These chats give our employees a chance to find out the management side.

In the extreme I will get letters from the employees about production or personnel problems.

Isn't this whole people approach somewhat paternalistic in this age of bottom-line results?

I suppose it is. I don't mean our policy to be that way. I mean it to be humanistic, not paternalistic. Whichever, it is working for us.

How did you acquire your present management style?

Well, I didn't start out as president. I've had a few good kicks in the pants along the way, not many but enough. Coming into the glass business, I was lucky to find a boss who spent a great deal of time teaching me the business. One of my regrets today is that I don't have enough time to spend with young

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people in the business and outside it.

When I went on straight commission—you either earn it or you don't get it—we had some difficult times. Two children, no hospitalization, no benefits. I learned to sell very quickly. And like every business person on a fast track, I ran into a couple of unpleasant situations that come under the heading of office politics.

The only job that I ever quit was because of lies being told about me. I said I can lock my windows against burglars and my doors against thieves, but I have no defense against someone who is not telling the truth. A manager has to demand absolute integrity, up and down the line. Once a man lies to you, you might as well fire him outright.

How do you deal with office politics?

We try not to have any. The best way is to have everything out in the open. When I'm not happy with a person's work, it's no secret, that person knows. And we might have a meeting in the elevator or the hall about a problem.

What qualities do you look for in hiring people?

Three priceless ingredients—drive, creativity, and judgment. You can tell after one conversation how much drive a person has. To determine creativity you really have to examine the person's background and discuss his accomplishments thoroughly. Judgment comes only with time. You have to trust your hunches on that.

What is creative about a can?

The engineering that is involved in the can and the manufacturing. When we started making aluminum cans ten years ago, they weighed 40 pounds a thousand. Now we are down to about 30 pounds a thousand, and we are going down to 27. There is also creativity in designing the computer system. The point is that you can have creativity in any job.

But cans? Who wants to spend his life making cans?

It's true you can't eat a can. Sometimes, when the inventory gets too high, I wish you could. But you can't feed the world without cans.

In the Oklahoma City plant, there is a young woman working in quality control. Her father has been a National plant manager for years and years. She doesn't look at the can business as being a dirty old factory. She got her image of the business from her father. When she finished college, she wanted

to get into the business. And she did.

What do you do about the manager who rises above his level of competence?

First, I am very careful about bestowing titles. I don't promote casually. Some people get a title, and right away they can't wear the same hat. Your most important title is that you are a human being. A title is a tool, and it means more externally than internally. If you were an SOB without the title, you'll just be a bigger one with the title.

What happens to the manager who can't perform?

I have to take him out of the job because he is unhappy if he is not doing the job well. But you can do that without breaking a man's spirit, without degrading or demoralizing him.

Not everyone can be the star or even the first supporting actor. The job of a manager is to cast his people in the right spot, to determine, after working with them, where each one fits best. If you place the right person in the job that is right for him, you are giving that person psychological satisfaction that he could never get in a higher position that he couldn't fill as well.

How do you keep the supporting cast happy when each one wants to be a star?

I am as honest as I know how to be. Everybody always wants to get ahead, but most people can appraise their capabilities pretty honestly, with a little help. You have to make a person understand that he can be happy doing a particular job because he does it well. And then you make sure the person is recognized for doing that job well.

Everyone says you are a stickler for detail. Are you?

A stickler for detail is a successfully thinking person in my opinion. Because that means that your mind is constantly taking in information, no matter how trivial. People who will walk right past a piece of paper on the floor and not pick it up bother me.

I got a letter for signature once, and five people had already signed it, and I found a mistake in the letter. That sort of thing really gets to me. It happens, but it shouldn't happen.

Isn't that being picayune?

It's minor, but it makes a difference. If I'm opening a plant and read off a list of names in appreciation and for-

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Millions of unmarked cans flow forth from the Oklahoma City plant, where efficiency and productivity are a credo. Mr. Considine's efficiency is similar: He leaves messages that require answers from his executives rather than telephone callbacks.

PHOTO: DAVID W. HAMILTON



Mr. Considine, who now has more paperwork to handle than he likes, got started in the entertainment business as president of his high school class when he booked an orchestra for the prom. "I was trying to impress a girl," he recalls.

get one person, the people there will remember the name I left off, not all those I mentioned.

But human beings are fallible. They do make mistakes.

When you know you have made a mistake, there is a chance to recover. The real problem comes when you don't know you've made a mistake. I'm not the sort of person who doesn't want anyone telling me bad news.

Being a stickler for detail can be a liability, can't it?

Well, it can be. I ought to delegate more, and I realize that. But noticing everything has been my track record, and it is difficult to change in mid-race. I am starting to delegate more, but it takes a while for a person to win my confidence so that I can feel secure in delegating responsibilities to him.

What do you do in your spare time?

With nine children and two grandchildren, a boy and a girl, spare time is sort of nonexistent. I spend as much time as I can with my family—four are still at home—and that's why I have always tried to avoid being away overnight. I'd rather get in at two in the morning than stay away overnight.

How do you relax?

Well, I play a little golf—I just took part in the Hawaiian pro-am tournament—but my chief hobby is business. I like the game of business.

Are you a clean-desk executive?

I think better when the desks are clear. I keep the various papers in different drawers and work my way through them. I'm never without papers to read and work on.

Do you have a code of ethics?

Yes, it is all written down, and it applies throughout the organization, but the top line managers have to set the standards. Just doing what is right is the better path. That is not a hearts-and-flowers statement. It has been proven. Doing the right thing is easier than doing the wrong thing.

Can nice guys finish first?

Absolutely. National Can may never be the biggest in the industry, but as long as we are first with our customers, our employees, and our suppliers, that's what counts. □



To order reprints of this article, see page 54.

The Verdict: More or Less a Success, But What's Next?

FROM THE BEGINNING, small business owners wondered just what a White House Conference on Small Business would do for them. They asked the question of themselves, of fellow delegates preparing to attend the conference, and of the conference staffers who helped to stage the regional and national meetings.

The answer given was one word—more.

Congress and the administration would become more cognizant of small business problems and be more willing to deal with specific concerns if they were vocalized. Business and government would become more sympathetic if small business presented its concerns in an organized fashion.

But when all was said and done in

Washington, D.C., the small business representatives seemed to be asking for less.

"We are here to petition for less," said Arthur Levitt, Jr., chairman of the White House Conference Commission and the board of governors of the American Stock Exchange. "We're looking for less interference and less harassment."

Recommendations to Carter

Indeed, the 60 recommendations made by the 1,800 delegates all seemed to indicate that now is the time for government to do more by doing less.

Of those recommendations—five from each of the 12 topic groups—15 are highlighted in a report to President Carter. They urge him to:

- Replace the present corporate and individual income tax schedules with more graduated rate scales, specifying the graduated corporate tax scale up to \$500,000.

- Adopt simplified accelerated depreciation to replace the present asset depreciation range regulations.

- Balance the federal budget in fiscal 1981 by limiting total federal spending to 20 percent of the gross national product and reduce this figure to 15 percent eventually.

- Revise estate tax laws to ease the burden of family-owned businesses and encourage the continuity of family ownership.

- Impose sunset reviews every five years on all new laws, regulations, and agencies to ensure that none exceeds original congressional intent. This review should include a cost-benefit analysis and proposed agency budget reductions. A regulatory review board of representatives from the executive branch, Congress, and small business should be established, and a line-item veto over regulations by a one-house floor vote should be enacted.

- Urge passage of the Small Business Innovation Act to support small business research and development, set-asides, patent retention, amendments to the Internal Revenue Code, and regulatory flexibility.

- Provide a tax credit for initial investment in a small business and permit deferral of taxes for roll-overs of investments affecting small business.

- Reform the social security system by including all public and private employees as contributors, tying benefits to contributions, freezing the tax base and rate at 1980 levels, and eliminating double dipping.

- Offer tax incentives in the form of a new security called a small business participating debenture to provide a source of capital for small businesses.

- Expand the Office of Advocacy in the Small Business Administration by guaranteeing it at least five percent of SBA's salary budget. Small business advocates should be assigned to work with the Office of Management and



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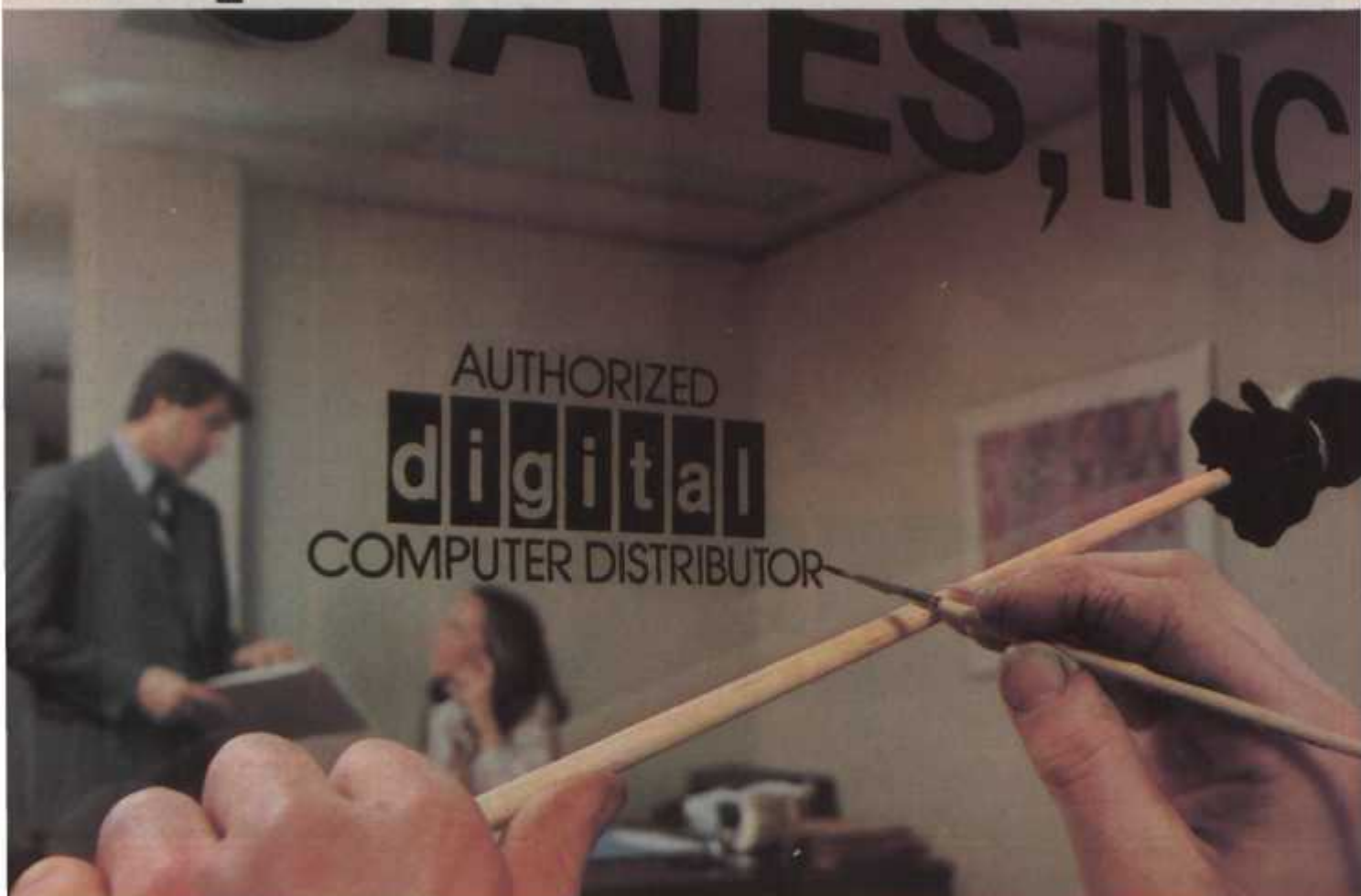
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Budget, Federal Reserve Board, Treasury, International Trade Policy Committee, and other regulatory agencies.

- Require private lending institutions to provide equal access to capital for women in business. The Federal Reserve Board should monitor loans to women entrepreneurs under the Equal Credit Opportunity Act.

- Make small businesses eligible for magistrate review of agency civil penalties and reimburse them for court costs, reasonable attorney's fees, and damages from administrative action if they win civil disputes.

- Freeze minimum wage standards at the 1980 levels and establish a two-tier minimum wage by exempting teenagers, seasonal workers, and part-timers.

- Establish mandatory goals for all federal procurements and funds or grants to states, localities, and public and private lending institutions on a contract-by-contract or agency-wide basis. These goals should be 35 percent for small businesses, 15 percent for minority-owned businesses, and ten percent for women-owned businesses.

- Require an economic impact statement by all government agencies considering new regulations. The statement should identify the anticipated benefits and justify the costs of the regulation to small business.

Out of the question

Now the question is: Will the administration and Congress seriously consider the recommendations?

One obvious conflict is the fact that small business wants a tax break. A simplified depreciation schedule, a tax investment credit, roll-over investments of capital gains, and deferral of estate taxes are all suggested.

However, conferees twice heard administration officials warn that tax cuts are virtually out of the question. President Carter himself urged the delegates to remember the administration's goal of balancing the federal budget.

"Keep in mind, as you vote on the recommendations, just how they will impact on that goal," the President said.

Later, Daniel I. Halperin, Treasury deputy assistant secretary for tax legislation, told a capital formation work session that the President is encouraging strict fiscal discipline.

"There is some question as to how much room there is in the budget for a tax cut," he said.

Such remarks, commented one dele-

gate, "lead us to believe the administration cannot be serious in its attempts to help small business."

However, because of their experience in detailed discussions to hammer out alternative policies and in meetings that lasted into the small hours, the delegates left Washington realizing that political negotiation is an arduous, give-and-take process.

Gained respect

"I was incredulous," says James K. LaFleur, president of a medium-sized manufacturing firm in San Diego, Calif.

"I think a majority of the small business people who attended the conference had very little idea of how Washington works. So it proved to be an educational experience for a good number of people.

"From what I can tell, Jimmy Carter didn't gain many votes, but he did gain a certain amount of respect from the delegates. There now exists respect for the political process and for the way government works. A strong small business coalition was formed at this conference."

While the White House has promised to study all the conference recommendations, the White House Conference Commission, the oversight body headed by Mr. Levitt, will present its own report to the President later this month.

When asked if the commission report will reflect the no-tax-cut goal of the administration, Mr. Levitt responded: "At the conclusion of the conference, it was obvious that the capital formation and retention process is the area of most concern to the majority of small businesses.

"But the delegates realize that some of their recommendations will not be accepted by the administration. I'm just not sure how many of the tax cut proposals will be implemented.

"The commission will not recommend answers that would be detrimental to the nation as a whole or to big business, for that matter. But I hope the administration will heed the voice of this enormous ground swell."

Apocalyptic

The conference was described by one national small business spokesman as apocalyptic at best. "We're not sure that the recommendations made by the conference delegates will be ultimately decisive, but the revelation that small business wants less rings loud and clear," he says. □

The Turnover Two-Step

Reorganization calls the tune for political appointees and government bureaucrats

By Michael Thoryn



When a cabinet secretary resigns, it can take a year or more for the department to function smoothly again. Philip M. Klutznick replaced Juanita M. Kreps as Secretary of Commerce only ten months before the November election.

We trained hard—but it seemed that every time we were beginning to form up into teams we would be reorganized ... we tend to meet any new situation by reorganizing, and a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency, and demoralization.

Petronius, 210 B. C.

THIS trenchant observation is found on a wall hanging in the office of a former government bureaucrat. It is a fair summary of the present state of the federal institutions that govern the nation.

The tendency to reorganize problems, while not uncommon in business, is particularly prevalent in the federal government. The reorganizations pro-

duce a governmental phenomenon, continuous turnover in top policy-making staff, which results in loss of continuity and lack of expertise.

As Paul Rand Dixon, a government employee since 1938 and on the Federal Trade Commission since 1961, puts it: "It's self-evident that you're more effective when you know what you're doing than when you don't."

Hugh Hecla, who has studied turnover among the 500 top political appointees—regulatory commissioners, cabinet secretaries, undersecretaries, and the like—says: "It isn't how frequently a given individual moves or stays. What really matters is how much continuity there is in the management team.

"You can have an undersecretary

leave his job after a year and three assistant secretaries who don't change over four years, and you're probably going to get almost as screwed up as if everybody had changed," says Dr. Hecla, now with Harvard University.

"It takes a while for people to establish working relationships, and that is as important as learning your own job," he adds.

Personnel operations

"Things are pretty much at a standstill in terms of policy issues at Housing and Urban Development, Health and Human Services, and parts of the Defense Department until new people decide which way they're going to go," says George S. Maharay, who ran personnel operations at three large agen-

cies. Mr. Maharay, a research consultant at the National Academy of Public Administration, says that by the time new teams are settled in and working well, the election buildup is beginning.

Top policy-makers, especially cabinet secretaries, spend much of the pre-election months campaigning, while the department's priorities and programs take a back seat. If the incumbent changes, turnover and reorganization are inevitable through much of the following year, says Mr. Maharay, who owns the Petronian wall hanging.

A Washington representative for a major company is blunter. "When agencies lose their secretaries or administrators, the first tier under them goes immediately, and work comes to a screeching halt."

At the FTC where commissioner tenure, excluding Mr. Dixon, has averaged less than three years in the 1970s, the veteran says: "I was the only one who had continuity, the historical background of why we made a particular decision."

"I said at my confirmation hearings that I intended to serve my full seven-year term. I think I'm the only one who really meant it," he adds.

Highly sensitive

A certain degree of instability at the top is built into the American political system. The president's term is four years, and senior policy-makers should be willing to carry out the new chief executive's programs. So new people are appointed to cabinet slots, executive and independent agencies, and, of course, the highly sensitive White House posts. Unfortunately, it can take almost a year to fill top positions. And the historic tenure of secretaries and undersecretaries is a scant 22 months.

Some examples: The old HEW had 13 chiefs in its 26 years; since the Transportation Department was set up in 1967, there have been six secretaries; HUD has had seven secretaries in 13 years.

Frederic V. Malek, who was special assistant to former President Nixon and is now executive vice president at the Marriott Corp., says: "The princi-

pal recommendation I made to the Carter people was to require a four-year commitment from everyone." And Mr. Carter did make a strenuous, partially successful effort to appoint people committed to full terms.

"To President Carter's credit, he kept his cabinet together longer than any other president," says Warren Buhler, president of Management Design, Inc., a consulting firm in Washington, D. C. "But with last summer's firings and transfers, there are more vacancies in policy positions than there have been in a long time."

Changeable policy

Constant shuffling leads to confusing signals.

A manufacturer who spent \$1 million to switch to gas in compliance with a government decree wouldn't want to switch to oil next year and coal the next. A business person's success is firmly tied to the bottom line, but government policy-makers aren't likely to stick by decisions made by predecessors. Policy, then, proves more changeable than fuel supplies.

Is there any solution? Putting aside the hurdles of getting appointed by the President and confirmed by the Senate, can the new appointee learn the job fast enough to do it before moving on?

He'll have to be a quick study. Says Mr. Malek: "A characteristic of the vast and unwieldy government structure is the short time available to achieve results because of rapid turnover at top levels and the inchworm pace of policy implementation at lower levels."

Mr. Maharay advises appointees to choose two or three major objectives. "They can try to do that or take on the whole world and get lost," he says.

At least a year

Current and former government executives agree that learning the system and decoding the lengthy budget cycle take at least a year for an appointee new to government. "It can take two to four years, perhaps the life of one administration, to have an impact on people's everyday business within the bureaucracy," Dr. Heclio says. "Be-



James Schlesinger had turns at Defense and the Central Intelligence Agency before running the Energy Department.

sides personnel and paperwork, people must be sure you really mean what you say."

Once the appointee has learned the job, will the inevitable reorganization keep him or her from doing the job? Probably.

The story is similar throughout government. Three to five years is the norm for new agencies like the Consumer Product Safety Commission or the Energy and Education departments to stabilize management and find a direction. At the mature agencies and departments, there is the semistandard year of limbo when the top slots turn over.

Policy reviews are endemic. For example, former Transportation Secretary Brock Adams started off by reviewing his predecessors' decisions. Now Neil Goldschmidt, Mr. Adams's successor, is doing a similar review—and promising quick results.

Says Mr. Maharay: "Reorganization tends to be destructive rather than constructive. The person who starts the reorganization often isn't there long enough to carry it through."

Barbara H. Franklin, who served almost six years as a consumer products safety commissioner, says lack of conti-



Outspoken Michael Blumenthal was shooed from the Treasury during President Carter's cabinet shakeup.



Joseph Califano also fell in the cabinet shakeup after serving as Secretary of the old HEW for two and a half years.

nulty hurt the agency. "You can end up reinventing the wheel, doing things that have been done before."

The current chairman, Susan King, is credited with bringing direction and a degree of success to the commission, which barely staved off dismantling by Congress in 1978. What will happen if Ms. King decides to leave?

"The staff situation is stabilized, some new talent was brought in, and new procedures are enabling the commission to function smoothly. If I were to leave, I would hope many of those staffers and procedures would remain," she says.

Looking elsewhere

A forlorn hope if past experience is any harbinger. A change in administrators almost always brings changes in direction, emphasis, and procedures. These changes inevitably cause some staff to look elsewhere.

Once the political appointee starts doing the job, can he or she gain the support of the bureaucracy for the President's programs?

"Political appointees in Washington are substantially on their own and vulnerable to bureaucratic power," Dr. Hecllo says. "The appointees—usually ill-prepared to deal effectively with the bureaucracy—often fail to recognize that the real power of the bureaucracy is not its capacity for disobedience or sabotage, but its power to withhold services."

Senior bureaucrats are well aware that the day-to-day routine such as is-

suing social security checks or forecasting the weather goes on despite policy-maker turnover.

Community service

Once they settle in, why do so many political appointees leave so soon?

"The jobs become unattractive if you want your privacy," says Stephen Hess, who served in the White House under two presidents and wrote *Organizing the Presidency*. "The positions are looked on as a community service, but when you start selling your investments to avoid the appearance of conflict of interest, it's not fun anymore."

Says Ms. King: "A regulator's job is frustrating and exhausting. There is almost no praise, only criticism. There is a point at which the job begins to grind you down."

Despite the grinding frustration and comparatively poor salaries, top-level government jobs are regarded as stepping stones to better-paying slots elsewhere. And while the appointees are learning and leaving, staff is turning over, too. One longtime executive says: "Young people, particularly lawyers, learn how to open doors in a year or two and run off to make big money."

Another factor influencing the tenure of appointees and perhaps their quality as well is the expanded Ethics-in-Government Act. One section bars former government employees for two years from representing private firms before the government in matters in which the executive was involved while on the federal payroll. There is

also a lifetime ban on dealings with the former agency concerning matters in which the appointee personally and substantially participated.

Teach or sell apples

These provisions may shrink the pool of candidates. Richard M. Patterson, government affairs manager for Dow Chemical U. S. A., says: "Restricting post-government employment will result in inexperienced and unqualified people in government. Agencies will be stocked with lawyers, public interest types, and professors—people who don't come from industry and have no firsthand knowledge of what they'll be regulating."

Says FTC Commissioner Dixon, only partly joking: "In effect, the law says that if I leave the commission, I can only teach school or sell apples."

Although the act did precipitate a flurry of resignations, its long-term effect on recruitment is uncertain. However, one source of personnel is now being tapped more often—congressional staffers. For example, Michael Pertschuk, who chairs the FTC, last served as chief counsel of the Senate Commerce Committee.

For business, the alternative to stable management teams is chaos. "We would have corporate anarchy," says a Washington representative for one company. "Our business would go down the drain if we had as much turnover as the agencies we deal with."

Best and brightest

Given that turnover at the top is part of the system, the only way to minimize its debilitating effects is to create a senior-level bureaucracy that is flexible enough to respond quickly to new bosses and programs.

This is the purpose of the Senior Executive Service, a government-wide pool of the bureaucracy's best and brightest. The service was established by the Carter administration to utilize the talents of the government's super grades more effectively. "Turnover in political Schedule C jobs will undoubtedly continue," says Dr. Hecllo, "but executive service bureaucrats may ease the adjustment pains of these birds of passage [political appointees]."

If government turnover can be stabilized, business may achieve a long-sought goal. Says a capital lobbyist: "Business would like to see the government put an issue to bed on its merits and not fool around with it for five or ten years." □



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Old Idea Propels New Vehicles



Two New York City subway cars were fitted with propulsion flywheel systems by the Garrett Corp. of Los Angeles. In regular service, the cars saved about one third the electrical energy consumed by conventional subway cars.



This flywheel-electric propulsion system for a car includes a flywheel in a vacuum (left), two generators, and transmission.

WHAT IMPROVES motor vehicle acceleration, is quiet and pollution-free, gains energy while idling and during braking, but adds weight and complexity to a vehicle and can explode like a shrapnel bomb?

The answer is the flywheel.

Like the popular World War II song, scientists working on flywheel technology have tried to accentuate the positive and eliminate the negative.

To a great extent, they have succeeded.

Gone are the Swiss buses of the 1950s that had heavy metal flywheels prone to flying apart at excessive speeds. Today, some flywheels are made of a synthetic composite—Kevlar—that turns itself into cotton candy if it goes too fast. Metal flywheels used for propulsion will be protected by shields. Most flywheels today, regardless of material, usually run in a vacuum inside a sealed container. (Propulsion flywheels are not to be confused with the non-vacuum metal flywheels that smooth out the power of individual pistons on an ordinary engine.)

While several firms have done work with modern flywheel propulsion, the Garrett Corp. of Los Angeles has

earned a reputation for using the technology on vehicles from big subway cars to small electric automobiles.

Garrett converted two New York subway R-32 railcars for metal flywheel propulsion systems. The subway cars ran in normal operations for six months in 1976. The system used 33 percent less energy than standard subway cars, a company spokesman says. Garrett is now working on plans for a larger-scale test, also with the New York subway system.

Last year, Garrett produced for the Energy Department a prototype electric car with a flywheel to boost acceleration and range. The flywheel was made of lightweight Kevlar. Lighter weight requires higher speeds for a flywheel to store the same amount of energy; Garrett's electric car flywheel spins up to 25,000 revolutions per minute.

Now, Garrett is trying to apply flywheel technology to a city transit bus. Tests last year using a hybrid flywheel-and-diesel-engine bus proved not to be cost effective. Current thinking at Garrett, working under a \$5 million federal contract, is to retrofit a trolley coach—essentially a bus that gets its power from overhead electrical wires—to smooth out power demands

and provide up to three miles of off-wire operation.

Jim Lawson, a Garrett program manager, says that the trolley coach flywheel would be made of Kevlar and would operate between 7,500 and 15,000 rpm. Electrical recharging would take 60 to 90 seconds to bring the flywheel up to maximum speed. In addition, the vehicle would have regenerative brakes, which transmit the energy of deceleration through gears to the flywheel.

Even off the wire, the flywheel trolley coach would perform as well or better than a standard diesel-powered city transit bus. Acceleration will be better, and it will be able to climb a 20 percent grade, says Mr. Lawson. As of now, there are only two such steep hills in the United States—the Queen Anne Hill in Seattle, Wash., and Fillmore Street in San Francisco. Fully loaded diesel buses cannot climb either one. Also, the flywheel trolley coach will be able to travel at 55 mph.

One problem confronting the Garrett technology is that only five cities in the United States have overhead wires for trolley coach operation. These are San Francisco, Seattle, Dayton, Boston, and Philadelphia. Alto-

gether, they have about 700 trolley coaches in operation. Canada has 593 trolley coaches in four cities—Toronto, Hamilton, Edmonton, and Vancouver—and Mexico City has 600.

For that reason, Garrett is suggesting that other cities could install partial overhead-wire systems, with numerous sections of cable, each only a few blocks long, scattered throughout a city. These would give a flywheel-assisted trolley coach enough locations for the needed 60-90 second recharging to get around the rest of town on the flywheel alone.

Mr. Lawson says that Garrett hopes to have a demonstration prototype ready by 1983. First, Garrett will have to pick a standard trolley coach to retrofit. He says there are only two manufacturers in North America, AM General in Detroit and Flyer Industries, Ltd., in Winnipeg. He expects AM General to be chosen.

In addition to the flywheel system, Garrett will have to add an automatic collector system so that the trolley coach can hitch and unhitch from the overhead wires without stopping. He expects that this system may be supplied by Dornier, a German firm located near Stuttgart.

Mr. Lawson says that he does not anticipate aesthetic objections to overhead wires in cities that do not presently have them.

There are 50,000 diesel-powered transit buses in use in the United States. In 1977, these buses consumed 402.8 million gallons of diesel fuel, which was 0.14 percent of U.S. use of refined petroleum.

Slow Growth Forecast for U. S. Auto Sales

Car sales in the United States will grow at less than one percent a year through 2000, according to a new study by Arthur D. Little, Inc., of Cambridge, Mass.

Also, imports are expected to decline from 22 percent of the U.S. market to about ten percent by 1990 and remain at that level until 2000. One major reason for the import decline, however, is that major foreign automakers will be setting up manufacturing plants in the United States, thus qualifying their products as domestics. So far, only Germany's Volkswagen has U.S. manufacturing facilities.

Another factor in the decline of imports, says the report, is the increasing fuel efficiency of U.S. domestic cars at a time when "trends in U.S. demographics—smaller families, two-income families, increased suburban living, more affluent population—will continue to favor shifts toward the smaller, more fuel-efficient vehicles."

Fuel efficiency is keyed to the government-mandated 1985 requirement of 27.5 miles per gallon. This is the corporate average fuel economy target, which allows automakers to build a mix of cars as long as all cars sold average the required miles per gallon.

In 1974, cars averaged about 14 mpg. William T. Slick, Jr., senior vice president for Exxon U.S.A., predicts fleet averages of 37 mpg by 2000.

Donald A. Hurter of ADL says that by the mid-1980s automakers will have incorporated into their products all of the readily available fuel economy techniques. After that, he says, "the world's automobile manufacturers will require massive capital infusions."

By 2000, Mr. Hurter sees world car sales of 48 million, an average two percent yearly increase over 1978's 31 million. The six leading car-buying nations—U.S., West Germany, France, Italy, United Kingdom, and Japan—now account for 70 percent of the world market. Sales in all six countries will be below the world average sales increase, he predicts.

Scrap Newspaper Scarcity Threatens Recycling Supply

Yesterday's newspapers, long the staple of pet owners and fishmongers, are in such short supply at recycling plants that the American Paper Institute has launched an old newspaper campaign. Last year, 11 million tons of newsprint were used to produce America's newspapers but only three million tons of old newspapers were collected for recycling.

Recycled newspapers are used for food packaging and other paper products, including newsprint for new newspapers. But the collection system, including private trash haulers, waste-paper dealers, community groups, and individuals, has not increased supplies enough to meet demand.

J. Rodney Edwards, an institute vice president, says the problem is most acute in the Southeast. One reason for

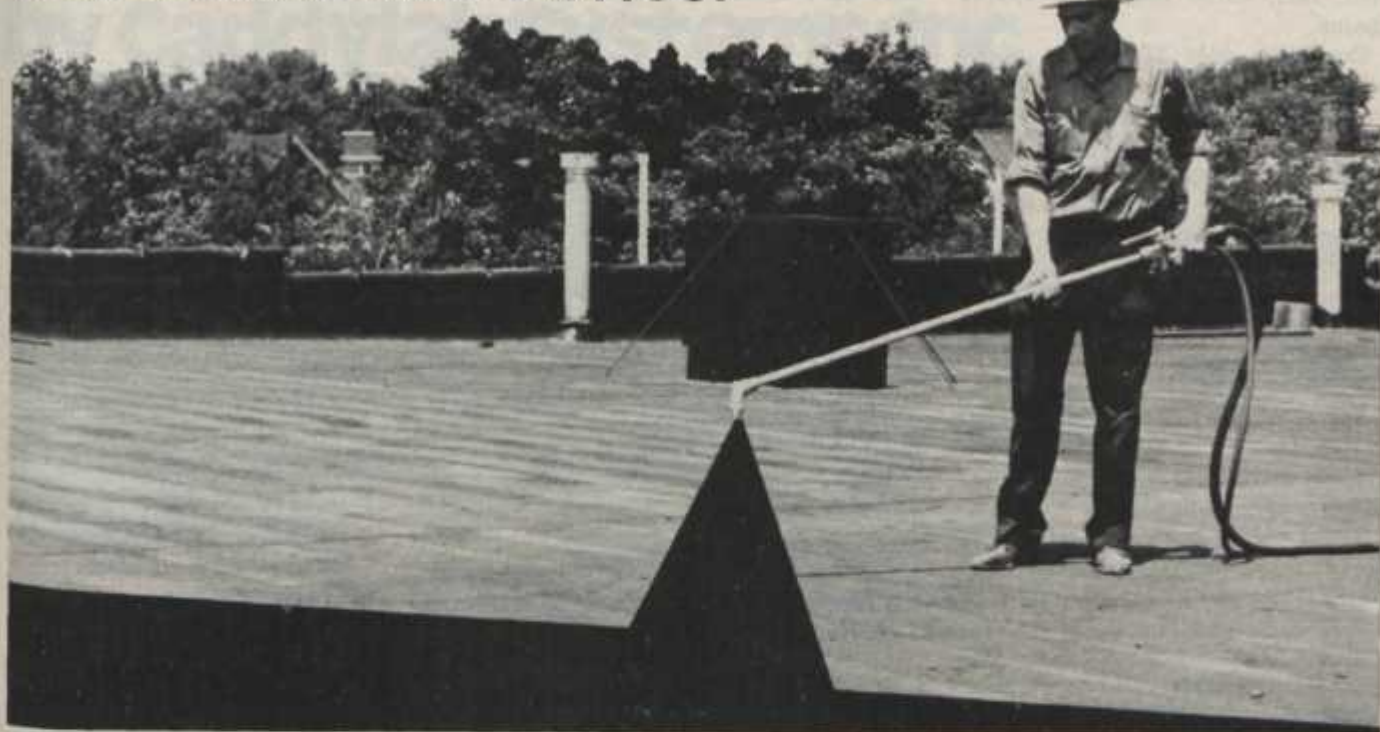
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Newspapers for recycling are scarce in much of the United States, but especially in the South. Last year, recycled newspapers—used for newsprint as well as many other paper products—produced \$50 million in revenue.

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The Randustrial Roofing Materials are prepackaged in a compact kit, PC-70, which contains all materials necessary for patching and resurfacing 7,000 square feet. The PC-70 Kit is priced at \$672.00 complete.



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the serious shortfall is a new recycling plant in Georgia that alone consumes 500 tons of newspapers a day to make newsprint. Opened last June, the Southeast Paper Manufacturing Co. in Dublin, 135 miles southeast of Atlanta, cost \$130 million. Owners are Cox Enterprises, Inc., Knight-Ridder Newspapers, Inc., and Media General, Inc., three major newspaper chains.

Currently, only 27 percent of old newspapers is recycled, and Mr. Edwards is blunt about trying to get people to recycle more. "It's good for the economy," he says, noting that recycling newspapers produces \$50 million a year for those involved.

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According to the Waterbed Manufacturers Association, which represents 120 of the estimated 150 makers of waterbeds, industry sales in 1979 were \$500 million and growing at a rate of 40 percent a year. R. L. Bisson-

nette, association president, attributes much of the growth to the quality of waterbeds mandated by strict regulations in California, where 85 percent of waterbeds are made.

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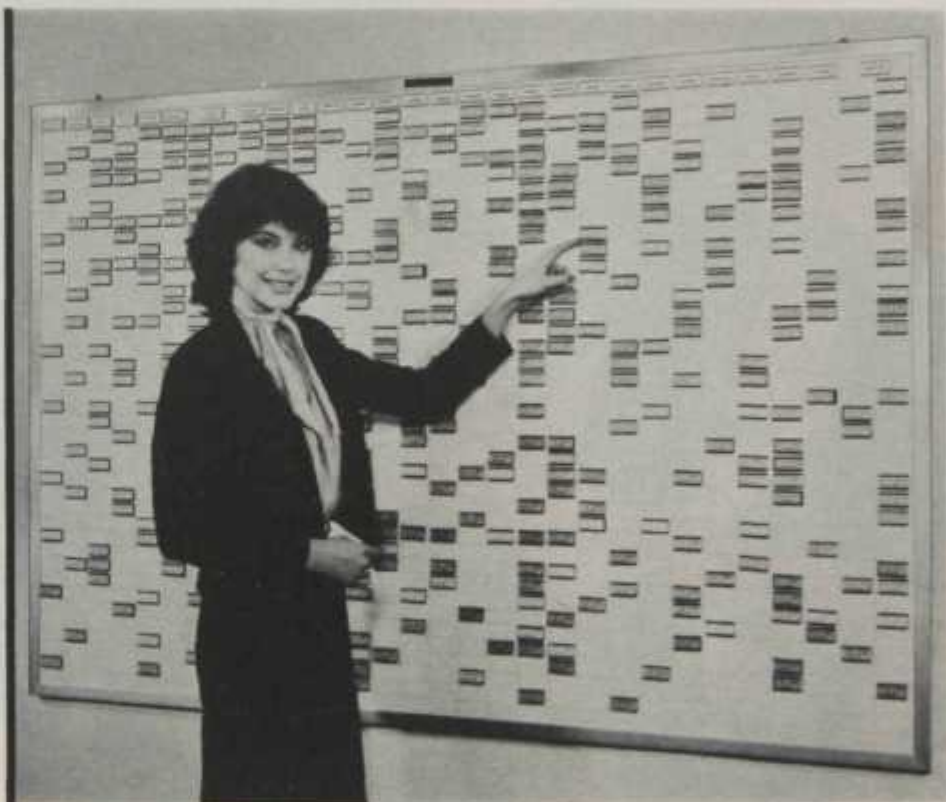
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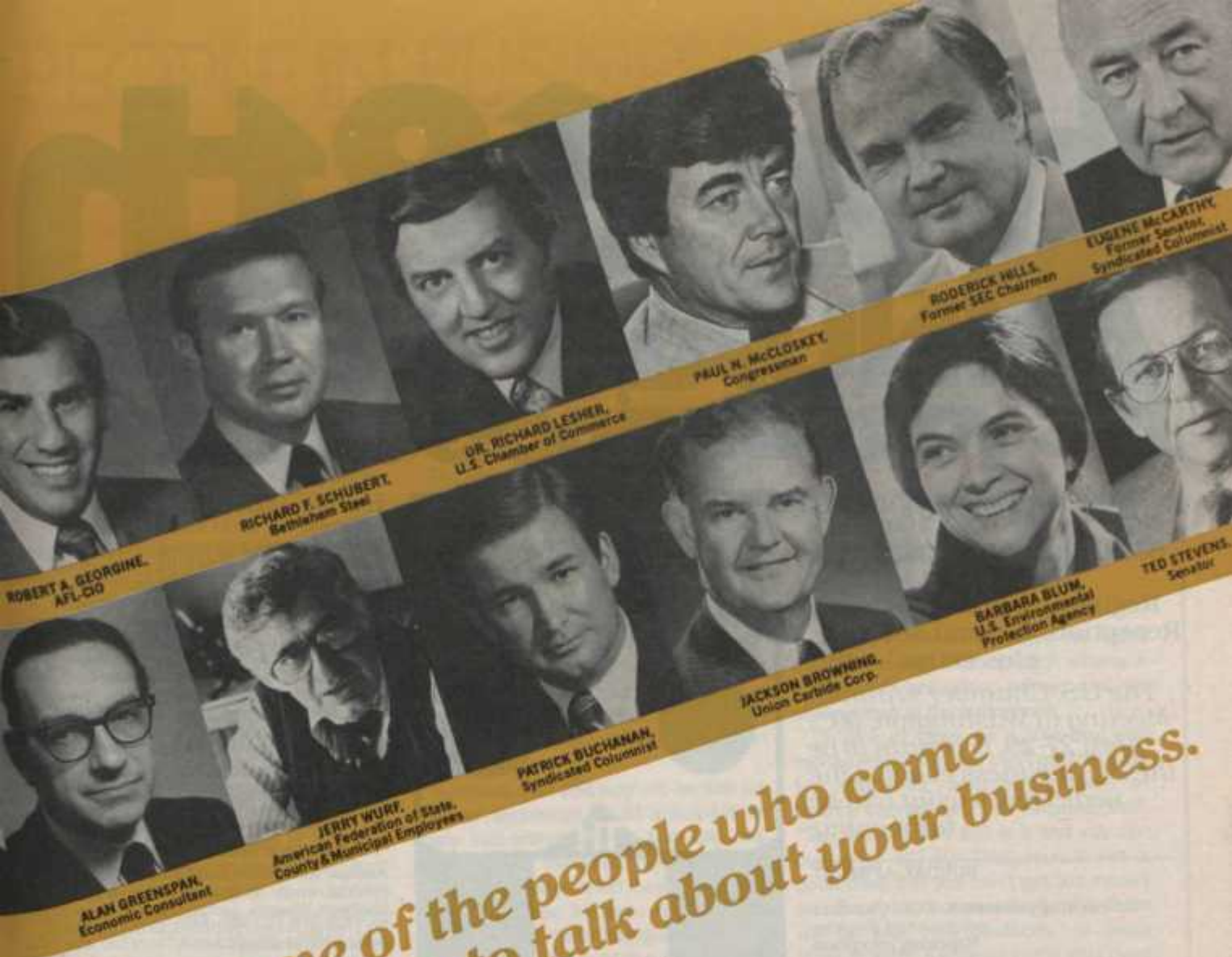
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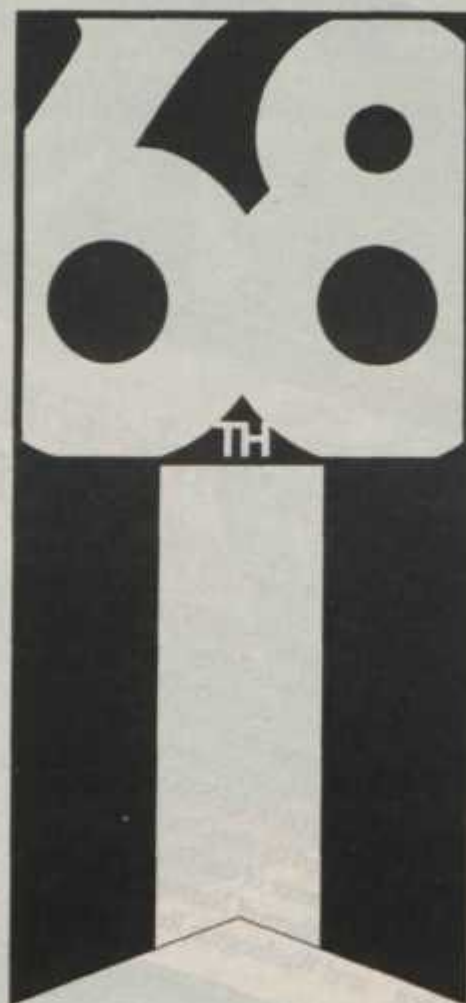
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Tomorrow, Let's Get Organized

John W. Lee believes that more people run out of time than money. "It happened to me," says Mr. Lee, president of Time, Life & Lee, a firm that specializes in time management.

"I reached a point in my life where all of a sudden I ran out of personal time in the process of being successful. So I did a total reassessment and started to eliminate unnecessary things from my life to organize my time better."

One item Mr. Lee eliminated was his job as professor of management with Florida State University's business college to start a career more consistent with what he wanted from life.

"I found that I had 40 different roles to fill and had to allocate time to each of those roles. What happens is that you do not allocate enough time to the most important roles, whether it is family, friends, or business. Something always suffers. So you have to learn to limit your roles and find roles that are consistent with one another."

Mr. Lee developed the concept of how to manage his time more efficiently and expanded the philosophy into a seminar program that he has presented to businesses, civic groups, and profes-

sional associations all over the country.

"People must take charge and make things happen," he says. "Not by accident, but by planning, by sitting down and deciding what it is they want to do."

"We actually create conditions and interruptions in our days and in our lives. People haven't learned to delegate, they haven't set up the situation to work for them."

The energetic Mr. Lee spends close to 70 percent of his time on the road, traveling from seminar to seminar. Managing business travel time, he says, is a lot like packing your suitcase. You must decide on the most efficient mode of transportation in much the same manner as you select appropriate attire; the agenda, like your clothes, must be carefully laid out; and, like the extra pair of underwear tucked into the side pocket, a contingency plan should be ready in case of emergency.

Business men and women, he tells his seminar audiences, must anticipate as many inconveniences as possible—delayed flights, canceled hotel rooms—and not get upset when they occur.

"It takes time to learn about time," says Mr. Lee, "and especially when it comes to travel. I'm of the bloody-nose school of thinking. Once you've made a mistake, you learn to avoid Chicago's O'Hare airport in the winter and not to rely on cabs in certain cities."

Mr. Lee suggests that executives use carry-on luggage, buy the pocket version

of Dun & Bradstreet's guide to airline schedules in major cities, and confirm hotel reservations in writing.

On overall time management, Mr. Lee says: "There is no simple solution. When I talk about time management, I'm talking about a basic life plan and schedules. It is a matter of thinking about how best to invest your time."

Fine-Tuning the Stock Market

George H. Michaelis plays the stock market the way Rostropovich strums a cello—with precision, verve, and an abiding love of the instrument.

"I think of stock as a little box with money inside that you can't get to," says Mr. Michaelis, who is president of Source Capital, Inc., Los Angeles, Calif. "Say the box has \$50 in it and you can buy it for \$27.50. That sounds like a good deal, but you can't get the money out. Except that a year from now, there will be \$58 from dividends, or every three months, a little slit in the side pops up 75 cents, if, of course, we've picked a good company."

Therein lies the catch—the selection of the stock, and that is what Mr. Michaelis does best for his company, a \$200 million public, closed-end investment fund whose portfolio ranges from H&R Block to DeBeers diamond mines to Levi Strauss. Source started life in the high-flying days of the 1960s. When Mr. Michaelis arrived in 1971, there was little vitality left in the fund's list of companies.

"A lot of people, myself included, did a lot of silly things in the late 1960s," says Mr. Michaelis, who formerly owned part of a venture capital firm. "It was an era not unlike the late 1920s. I mean two plus two equalled seven. Everybody believed that."

"But the great thing about the investment business is that you don't have to play."

Mr. Michaelis started salvage operations with one hand and a growth campaign with the other. "We looked at



"It takes time to learn about time," says John Lee. "There is no simple solution."

second-tier companies then," says Mr. Michaelis. "We were after high profitability, and we were willing to pay above book value for stock if the company's rate of return was outdistancing inflation."

"An editorial in *Harper's* written in 1848 bemoaned the absolute mess America was facing—rampant inflation, a weak dollar, the threat of Russia, no leadership. Things don't change that much. As an investor, you must make your judgments based on value, not on what might happen in the world."

Five years ago, Mr. Michaelis would never have looked at the big name stocks like General Motors or IBM. But today he believes there is value even in the highly capitalized companies. "It is possible to identify businesses that even under the most adverse conditions won't lose money and may even maintain dividends," he says.

While he considers himself a conservative investor, Mr. Michaelis is not unwilling to depart from the consensus. So far, his departures have earned a great deal of money. In the past five years, the total investment return per share has jumped 267.8 percent.

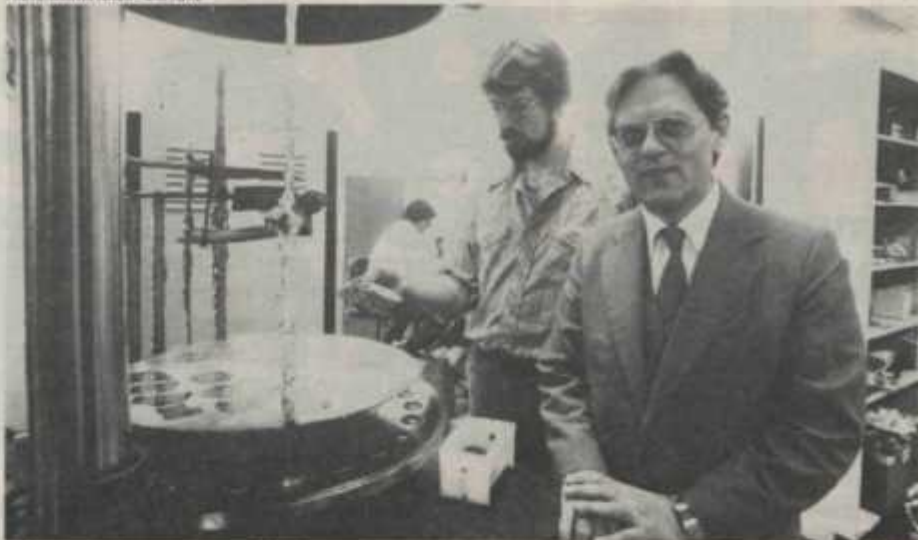
Mr. Michaelis emphasizes that he is not just another growth stock speculator. "Choosing stock is a test of intelligence and discipline. It involves making analytical judgments about how various businesses function, how productive their managements are, and how strong their finances are."

"The stock market is something like an orchestra," he adds. "What I do is assemble a chamber group from it."



"A lot of people did a lot of silly things in the late 1960s," says George Michaelis.

PHOTO: MARVIN IKOW—UNPHOTO



"No one had to create this phenomenon," says Joseph Lindmayer. "It's in nature."

Selling the Power of Sun and Sand

Joseph Lindmayer gets more than just a tan from the sun and sand. The firm he founded in 1970 uses sand to make silicon, the catalyst in solar cells that converts the sun's rays into electricity.

"No one had to create this phenomenon," says Mr. Lindmayer. "It's in nature, and the supplies are limitless. Development of inexhaustible resources is what this country needs in a time of growing energy shortages."

Mr. Lindmayer, who left his native Hungary during the 1956 revolution, was in at the dawn of the solar age. He succeeded in greatly boosting solar cell efficiency while working for the Communications Satellite Corp., known familiarly as Comsat.

"At that time," he recalls, "photovoltaic cells were used only in communication satellites and were only ten percent efficient. At a cost of nearly \$500 a kilowatt hour, commercial application seemed impossible."

But not for Solarex Corp., which Mr. Lindmayer started with a fellow Hungarian refugee, Peter Varadi. "I had to break away to gather together people who were committed to the use of solar," he says. "Ten years ago, large companies like Comsat weren't interested in developing solar energy."

Since then, solar energy has become a viable alternative, and Solarex has burst forth from a \$200,000 investment

to a \$10 million company with foreign operations. "Since the early days of our company, there has been a tremendous change in the public perception of solar energy," says Mr. Lindmayer.

What has also changed is the cost of solar electric, from a high of \$500 a kilowatt hour to today's average cost of close to \$7.

That's still not good enough, though, says Mr. Lindmayer. The cost must drop to 50 or 60 cents before solar can be truly competitive with conventional energy sources.

"But the beautiful thing about solar electric is that it can be used anywhere," he says. For example, the Solarex photovoltaic system is used by the natives of a village in Koni, Mali, Africa, to power water pumps.

"On the Papago Indian Reservation in southern Arizona, solar electric power runs 15 refrigerators, a 5,000-gallon-a-day water pump, 40 fluorescent lights, one washing machine, and one sewing machine. In Nebraska, farmers use solar energy to power irrigation systems during the growing season."

"It will take tremendously good technology to convert traditional users of electricity to solar electric," Mr. Lindmayer predicts. "Americans are very good at inventing new technologies, but not so good at implementing them."

Mr. Lindmayer is in the process of converting his own home to solar electric. During one of the winter storms that resulted in blackouts all over the Washington area, he managed to produce two hours of electric power with a makeshift system, while his neighbors scrambled to find candles. □

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The bond between animal and human stretches back thousands of years to when the wild instincts of the canine were tamed.

Man the hunter has domesticated and improved many breeds of dog to track wild animals for food and sport.



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Love in miniature... small dogs appeal especially to those who live alone.

Show time... with every hair in place, would-be champions must learn how to stand motionless for a judge's perusal.



PHOTO: SPINHAL ASSOCIATES



Dog Fanciers

The Perfect Partnership

In life the firmest friend
The first to welcome,
Foremost to defend.*

By John Costello

IS THE DOG really man's best friend? Better than his guppy or tomcat? Dearer than his family? More loyal than his chums?

As everyone knows, Sen. George Graham Vest of Missouri thought so. In 1870, he uttered his famous tribute to the dog.

"The one absolutely unselfish friend that man can have in this selfish world," he began, "the one that never deserts him, the one that never proves ungrateful or treacherous, is his dog."

His impassioned speech, delivered on behalf of a client whose dog had been killed, certainly made believers out of the jurors. They awarded his client damages of \$150.

So much for oratory. Now poetry.

Ogden Nash was just as big on Bowser as Sen. Vest. Mr. Nash described the dog in these immortal lines:

*The truth I do not stretch or shove
When I state the dog is full of love.
I've also proved, by actual test,
A wet dog is the lovingest.*

Man and mutt have been buddies for a long, long time. What is believed to be the oldest picture of dogs is found on the tomb of Amten in Egypt. It dates to the fourth dynasty, or between 2900 and 2751 B.C., according to the American Kennel Club's *The Complete Dog Book*. It shows a triumphant hunter, a gazelle slung across his shoulders, with a sleek hound at his side.

There are many breeds of dog. The American Kennel Club recognizes 125—from affenpinscher to Yorkshire terrier. That's by way of Basenji, Kuvasz, Lhasa Apso, Rottweiler, Saluki, Vizsla, and Weimaraner.

Dogs come in all shapes, sizes, and colors. The National Geographic Society's book *Man's Best Friend* says the regal Irish wolfhound is king of the canines. His breed stands 30 to

38 inches at the shoulder and weighs up to 160 pounds. St. Patrick is the reason that you don't find snakes in Ireland. The wolfhound is the reason you no longer find wolves there.

The midget of dogdom is the chihuahua. That Mexican import stands four to six inches at the shoulder when fully grown. Weight? One to six pounds, which may explain why the chihuahuas is not known to have chased anything out of Mexico. Not even a cucaracha.

Poodles are the most popular breed today, the American Kennel Club reports. They come in three sizes. Miniatures are ten to 15 inches high at the shoulder. Toy poodles are under ten inches, and standard poodles are more than 15 inches.

After poodles in order of popularity are Doberman pinschers, German shepherds, cocker spaniels, Labrador retrievers, golden retrievers, English setters, beagles, dachshunds, and miniature Schnauzers.

ERVING ELDREDGE lives in a big, old house—five bedrooms—in Middleburg, Va. It sits on a hill with a million-dollar view of the Blue Ridge mountains.

He and his wife, Ann, are "empty-nesters." Their five children are grown and have left the parental roof.

But the Eldredges don't lead lonely lives. Not with two Welsh corgis, two dachshunds, 25 Irish setters, and 15 English cockers as permanent house guests.

"My wife and I pretty much live in the kitchen," says Ted Eldredge with a laugh. "So do the dogs."

Tirvelde Farms is in classy Virginia hunt country where President Nixon's famous Irish setter, King Timahoe, hails from. A dog's life is hard to beat on the 589-acre spread, where the Long Island-reared businessman runs beef cattle. The 50 dogs that call it home have individual private kennels and big fenced fields to roam in. Each takes its

* Inscription on the monument of a Newfoundland dog [1808].

turn as guest for the night at the Eldredge manse.

"All our dogs are house dogs," Mr. Eldredge says, "even though they are show dogs and champions."

He got his first Irish setter, a gift from his parents, at ten. By 14, he was showing and breeding Irish setters.

"The first good bitch I got from England was the foundation of my kennel," he says. "Her name was Champion Kinvarra Mollie of Gadeland."

"She went to her championship undefeated by any bitch in the breed. Then she turned out to be a very, very famous producer. My Irish setters all stem from her. Now, they're about 12 generations removed."

When President Nixon's staffers decided to give him a gift to mark his return to the White House, they went to Tirvela Farms for King Timahoe.

"It was a male I was keeping for myself," Mr. Eldredge says ruefully.

The red setters are an eyeful, but why so many?

"Well," says Mr. Eldredge, a member of the board of the American Kennel Club, "we just plain like the dogs. So did my family before me."

HOW MANY other Americans do? You'll find a pet dog in nearly one out of every two households, the Pet Food Institute says.

In Virginia de Helsby's San Francisco home there are three—all poodles.

Do clothes make the man, or the dog? If so, the poodle—with its featherduster tail, pompons on its paws, and sometimes rosettes on a shaved rear end—must be a sissy?

Ms. de Helsby laughs at the suggestion. "Unfortunately, some people look on poodles as a spoiled lapdog, an animal that sits on a dower's lap and rides around all day in a limousine."

"I suppose there are isolated examples like that, but they are a minority," she says.

"The poodle is really a long-haired water retriever. Originally, he was trimmed to help him slip through the water faster. That developed into the two fancy show trims—the Continental and the English saddle—that most people associate with poodles."

But that fancy trim is like tails or a tux, meant for formal occasions in the show ring. Around the house, the doggy equivalent of slacks and sport shirt are just fine.

"When you have shown him as long as you think proper and retire him, you do away with that exaggerated trim," says Ms. de Helsby.

"If you saw my dogs with a kennel clip, you might not recognize them as poodles."

If the poodle is not a lapdog, what is he?

"Very elegant," she says, "and very intelligent. Poodles make excellent companions. They are very sensitive to a person's mood. And they don't have a doggy smell or shed constantly."

"In fact, they make excellent guard dogs. They'll do battle if they feel their home or owner is threatened."

"I have three miniature poodles in the house. If a burglar ever broke in, I'm afraid he'd go out without the seat of his pants."

When he was a kid, Charles E. Cobb once thought of following in the footsteps of his father, a physician.

"But all those house calls he used to make killed that notion," he says.

And after he was a graduate pharmacist—"the next best thing," he comments—he thought of opening his own shop.

"My Dad would have backed me," he says, "but the hours I would have had to keep..."

So he became manager of Store No.

29 of Taylor Drug Stores, Inc., Louisville, Ky. Why No. 29? Because it is only 20 minutes from the kennel, right in back of his house, where he keeps his cocker spaniels.

It wasn't easy, but Mr. Cobb managed to do something with his life that would please his father and do something with dogs that would please him.

Mr. Cobb lives in a two-story Tudor house on the outskirts of Louisville. Phi-Tau Kennel, his dog's home, is the spitting miniature image of his own.

Like Ted Eldredge's kennel, his was founded on a fine female dog, Champion Grimesby Sweet Sue, a black cocker spaniel.

His hobby has a lot in common with tennis, golf, auto racing, pro football, or arm wrestling. Namely, competition.

"I like to breed and show the dogs," says Mr. Cobb, a three-term president of the American Spaniel Club.

"Ultimately, the name of the game is to win. It's a cutthroat game for some people, but not for me."

"Showing my own dogs, I've lost a lot. But I have won a lot, too. If I get beat, I'll say: 'Well, there's another show soon.' And it comes along, and you win. That makes up for all the losses."

"To me, the real reward is to breed and show a sound dog."

WILL ROVER eat you out of house and home? Does his upkeep remind you of painful car payments? Could you take a luxurious trip to Bermuda for the price of shots, meals, and medical care?

Yes and no.

Dogs are expensive, if you have a kennel full of them. But not a single mutt.

Cathy Bond is perhaps a more typical dog owner. Ms. Bond has a two-year-old, 65-pound Old English Sheepdog named Smirnoff von Bond. His care and feeding, she figures, cost around \$408 a year.

That includes \$40 for an annual checkup and shots. Grooming comes to \$170 a year. That covers five trips to a kennel where the dog is bathed, combed, and dipped for fleas as well as having his nails clipped and ears cleaned.

His food bill is about \$158. That pays for 14 25-pound bags of Ralston Purina's Butcher Blend. Vitamins and medicine come to \$50 a year.

"That's about \$34 a month," says the proprietor of Hooters, a popular bar and restaurant in downtown Washington, D.C. "And," she adds,

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Preferences change, but today the poodle reigns as the most popular breed of dog.

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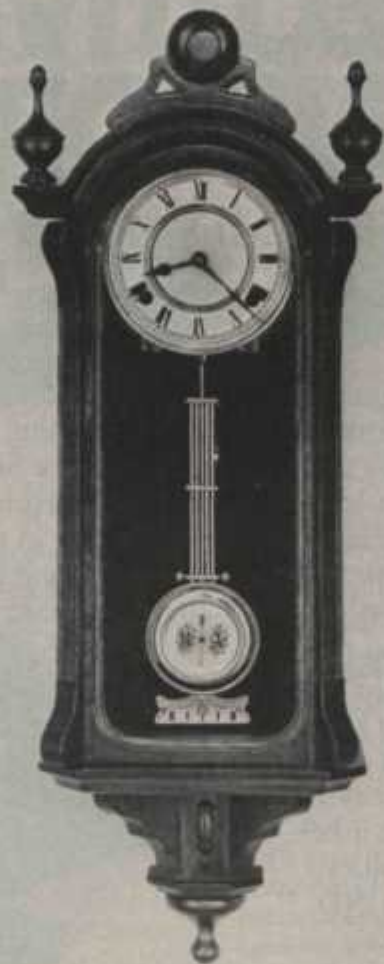
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Smirnoff is "worth every cent of it."

Ruth Morgan Edwards wanted a dog. "Preferably," she says, "something in the fuzzy line." But her first husband insisted on a Doberman pinscher. Now she's not sorry.

"I like their regal look," she says, "and their short hair. And I like the idea that they aren't everybody's dog. I didn't ever have to worry about them walking out the door, wagging their tails, and following someone down the street. Our Dobermans are family."

"They're not mean," she hastens to add. "Breeders have worked hard to give them an even temperament. But they are discriminating. They know friend from foe."

Her favorite?

"In 1962, I got a really good male

that later became Champion Ru-Mar's Morgansonne. We called him Sonny. That's when I got into showing."

Mrs. Edwards, a former secretary and president of the Doberman Pinscher Club of Sacramento, Calif., sells real estate for Century 21 Marie Williams, Inc., in Monterey.

"Out here in California," she says, "you can find dog shows within driving distance almost every weekend."

"Sonny gave me my greatest thrill in the show ring."

"It was in October, 1963, at a show sponsored by the Doberman Pinscher Club of America in Los Angeles. Sonny was entered in the American-bred class with about 18 other dogs."

"I was still a novice, and a win would be a big feather in my cap. Sonny ap-

parently realized how important a win was to me."

"The show was outside, and it was very hot. Sonny, who hated to be out in the sun, stayed stacked—that means standing motionless in a show position—for half an hour or longer."

"A lot of dogs gave up. But not Sonny, he just hung in there."

"I was so thrilled when we won. I just started crying."

Can a dog really tell how you feel?

"Absolutely," she says. "They can't read minds, but boy, they know your vibrations."

WELSH CORGIS come in two varieties—Cardigan, with a long, bushy tail, and Pembroke, tailless or cropped.

Their name in Welsh means dwarf (cor) dog (gi). They're about as tall as Dachshunds, ten to 12 inches at the shoulder. In Wales, they're hardworking farm dogs.

About 12 years ago, Haworth F. Hoch, board chairman of the American Kennel Club, decided he'd like some. He and his wife had raised collies for years. But he had seen the little Welsh breed at dog shows, and he took to them.

"When I told my wife I wanted a corgi," he recalls, "she said that was fine, but I would have to get a Cardigan."

Why a Cardigan?

"Because," she said, "every dog is entitled to have a tail to wag."

That's where Mrs. Hoch differed with the Queen of England. Corgis have been a favorite of Her Majesty for years—but Pembroke corgis.

Mr. Hoch is on the boards of directors of Harrisonville Telephone Co., Waterloo, Ill., and McCourtney-Breckinridge & Co., St. Louis, Mo.

His corgis wag their tails at 120-acre Sweetbriar Farms where the Hochs live near Pacific, Mo. The kennel there will house 40 dogs. But now they are down to eight.

Mr. Hoch used to show his dogs at American Kennel Club shows, until he became club director. Now, the thrill of competing and winning is gone. What's left?

"I think the real reward," he says, "is the satisfaction of having bred, owned, and shown a good specimen of a particular breed. I think you probably take the same pride that an artist would in a beautiful painting."

And, of course, you get a lot more companionship from Fido than from a piece of canvas.

"That," he says, "is for darn sure." □

Dog Days of Yore

No one recorded the happy moment when a dog first licked a man's hand instead of biting it. Man and dog had signed their pact centuries before an unknown Egyptian artist portrayed the fruits of their teamwork on the wall of a tomb at Thebes.

When these partners strode forth into history's light, men had already shaped a civilization along the banks of the Nile, and the dog had long since channeled wild instincts to the service of his master.

The first records of this unique relationship are found in tablets and inscriptions carved in stone 5,000 to 6,000 years ago and preserved under the hot, dry sands of Egypt. Here, captured for eternity, are the sleek hounds of the pharaohs coursing the desert for the swift gazelle; stalwart dogs guarding flocks and fields; others finding favor in the home.

To these ancients, the dog was more than mere household pet or hunting assistant. He was the object of reverence. Egyptians venerated him as symbolic guide and protector in the realm of the dead. They gave their god, Anubis, the body of a man and crowned him with a doglike head.

Dogs played their part in Greek religion, too. Sacred dogs kept in the sanctuary of Asclepius, god of medicine, and Epidaurus were said to heal the sick by licking them, as did the sacred serpents. The dog of the mighty hunter, Orion, was transformed into the brightest star in the

heavens, and the rise of the Dog Star, Sirius, marked the Athenian new year.

"Zoologists generally agree that the household dog developed from the Eurasian wolf," said Stanley P. Young, former senior biologist of the U. S. Fish and Wildlife Service.

"The dog's story begins in the lush forests 50 million years ago with a small, rather brainy, tree-climbing creature, Miacis. This undoglike patriarch was also the progenitor of both bear and raccoon. From him evolved a carnivore we call Hesperocyon."

"From 25 to 50 million years ago, two larger, shorter tailed, distinctly doglike forms named Temnocyon and Cynodesmus made their appearance on the open plains. Cynodesmus became the ancestor of our modern wolves, coyotes, jackals, foxes, and domestic dogs."

Man unconsciously shaped the dog he wanted. At first, he kept only those most useful in the hunt. After he domesticated sheep and cattle, he chose the dog best equipped to fight off predators.

Everywhere man went, dog went, too, thus becoming the most widely distributed of four-footed animals.

Today, 24 million families in the United States alone welcome some type of dog into their homes.

—Excerpted from *Man's Best Friend*, published by the National Geographic Society.

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The Answer May Be Either, Both, or Neither

IS THE THERMOMETER used to measure inflation contributing to the fever? That question is being asked more frequently as the inflation rate sticks firmly to double digits.

There are several ways to measure inflation. The one familiar to most people is the consumer price index calculated by the Labor Department's Bureau of Labor Statistics. Some critics believe that this index, because of the way it is compiled, exaggerates the trends it is supposed to document.

The basic index records monthly price changes in a fixed selection of goods and services typical of those purchased by a moderate income urban consumer.

Critics say this procedure distorts the impact of inflation in two ways. First, the typical consumer is assumed to buy a new house once a month. When both housing prices and mortgage interest rates are escalating rapidly, such treatment of housing costs will obviously overstate their effect on the average consumer. Second, the index's market basket does not change in response to rising prices, but the consumer's purchases frequently do.

When steak, for example, becomes too expensive, a typical consumer switches to lower-priced hamburger. The change helps the consumer's budget, but also lowers his standard of living. Which effect an inflation index should properly measure is arguable.

Another measure of changing prices that accounts for these factors is the implicit price deflator for personal consumption expenditures—or PCE deflator—published monthly by the Commerce Department. The PCE deflator assumes that a consumer changes buying patterns in response to rising

prices. It counts all shelter costs on a rental equivalency basis rather than as the purchase of a new house.

The difference? For 1979, inflation measured by the consumer price index was a little more than 13 percent, while inflation measured by the PCE deflator was slightly above ten percent.

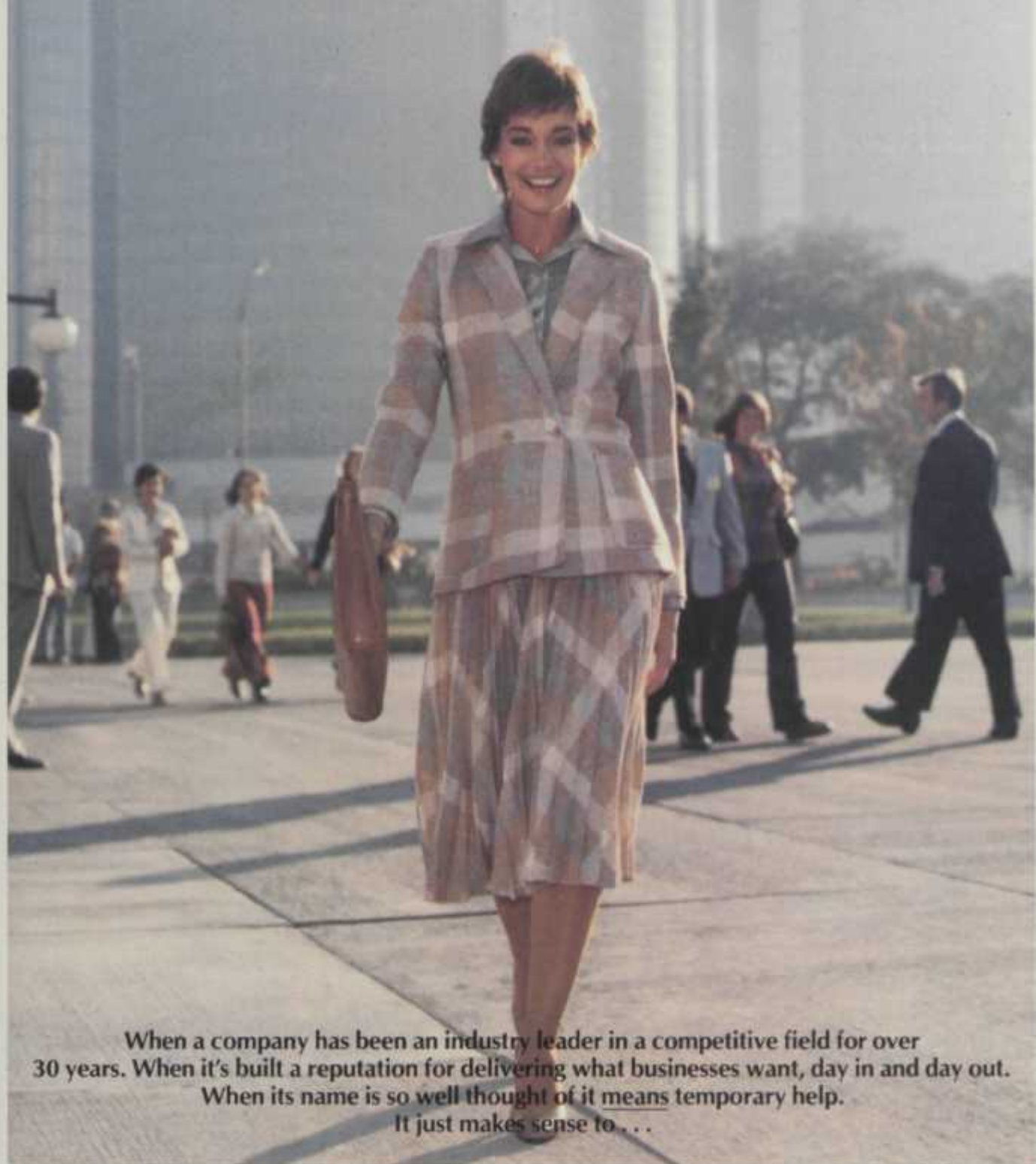
Which figure is correct? Either, both, or neither. It depends on the individual's experience in the marketplace. As a matter of national policy, however, the difference between the two indicators is much more significant.

The consumer price index has been the established measure of inflation for many years. As such, it determines what changes will occur in the many forms of payment now indexed to the inflation rate. Increases in social security payments and federal pensions are based on rises in the index. So are many wage scales.

Rising federal outlays and labor costs resulting from a rising index themselves contribute significantly to inflationary pressures. Consequently, if the index is seriously overstating the rate of inflation, it is itself contributing to inflation.

On the other hand, there are valid criticisms of the PCE deflator, too. Also, there is an obvious danger in allowing a government threatened politically by high rates of inflation to start selecting indexes that produce lower numbers.

In fighting inflation, there is no substitute for realism. The question of how best to measure inflation is too important to ignore and too volatile to settle offhandedly. A reliable thermometer is vital if the diagnosis and prescription are to be correct and effective. □



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